BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

FEBRUARY 1937

The Condition of BUSINESS

FUNDAMENTAL STRENGTH. General business has continued its upward course, promising an active Spring season. All the factors which have stimulated business into exceptional activity in the past year are present and the rising curve of consumer demand shows few if any signs of straightening out.

LABOR UNREST. The chief uncertainties of the moment are the effect of labor disputes upon industrial activity, and the long term course of Federal authorities with respect to credit control and money rates.

It is certainly indicative of broad, underlying strength that adverse factors have had little material influence upon current business. The General Motors strike naturally reduced industrial output because the automobile industry occupies a key position and the effects of a prolonged tie up would be bound to spread.

VOLUME OF BUSINESS UNINTERRUPTED. Retail buying has been somewhat spotty as a result of unseasonably warm weather, but on the whole is ranging around 10 per cent above that of a year ago. Wholesale buying is reported as showing even greater strength. Activity in steel continues unabated in spite of the strike in the automobile factories, the back log of orders indicating high production until well into the spring. Machinery, railway equipment, construction materials and nearly all heavy goods are reported active. Current sales of capital goods are said to be running over 30 per cent higher than in the corresponding period of a year ago. Here, again, the only possible break in sight seems to be the results of prolonged labor troubles.

FEDERAL BUDGET AND TAXES. Chances for the immediate modification of the undistributed profits tax seem less bright than they were before Congress met and the budget message was submitted. So also with respect to the capital gains tax. Budget estimates for the next fiscal year have been based upon the tax structure as it now stands and the Administration seems disposed to operate the revenue machinery, including miscellaneous revenue measures which are about to expire, on present lines for at least another year.

STOCK TRADING. The Securities and Exchange Act may be strengthened so as to cover possible abuses in exchange member trading.

ROBINSON-PATMAN ACT. The chain store act may be modified to cover the operations of manufacturers who maintain their own retail establishments and chain stores which do their own manufacturing.

SOCIAL SECURITY. Modifications of the Social Security Act are being discussed which may lighten the tax a little for the present, but it is somewhat doubtful if they will be attempted this year.

UNCERTAIN MONEY RATES. Bankers waited intently for the Federal Reserve Board to announce its plans with respect to the excess reserve situation in line with the word on November 21 that action to curb the influence of unemployed funds would be taken early in the year.

Several reasons were suggested for the delay. One was that, although the Reserve authorities recognized, with excess reserves again around the $2,100,000,000 mark, some action would have to be taken to prevent possible misuse of unemployed funds, there was nothing in the present securities or commodity situation to demand immediate action. Conditions, of course, have changed somewhat since November.

DEFLATIONARY EFFECT. It seems to be felt that with strikes possible in the near future an undue expansion of credit is unlikely and that any action taken by the Board to prevent it might have an unfavorable effect upon business expansion.

In other words, there are enough deflationary influences at work without adding to them. At all events the result has been uncertainty in a very sensitive money market, especially with respect to short term rates. It led to an increase in acceptance money rates and considerable irregularity in the prices of bonds, including those of the Federal Government—nothing at all serious, but important as an indication of the sensitiveness of the bond and money market situation.

DIFFICULT DECISION. Evidently the Reserve authorities encountered some difficulty in deciding both the extent and the method of reducing the excess funds. A question of "timing" also entered into the matter and the comparatively slow return of holiday money from circulation was a factor that had to be taken into account.

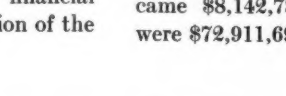
INCREASED BUSINESS LOANS ANTICIPATED. Favorable year end reports from most banks have given the banking business much encouragement although the improvement in earnings on current operations has been the result largely of net recoveries compared with previous losses. This fact makes the immediate prospect less impressive. Most bankers, however, expect a continued demand for miscellaneous loans for business. "Other loans" in the reporting member banks reached their high point at $4,290,000,000 on December 30—$889,000,000 higher than on the corresponding date of 1935.

The decline since the beginning of the year has been moderate—less than in the corresponding period of 1936. The steady rise in these loans last year began in March. With the increase in the volume of industrial output and trade it is considered inevitable that a similar rise may be expected during the current year.

LONG RANGE VIEW FAVORABLE. The long range view of the business situation is unquestionably favorable. However menacing may be the labor situation it may be realized that strikes in themselves can be regarded in some ways as indications of business recovery as well as of certain maladjustments caused by business recovery after a long period of depression.

The steady improvement in the traffic, finances, and prospects of the railways; increasing plans for plant extensions and betterments of great industrial concerns, such as the $130,000,000 outlay announced by the steel companies and $300,000,000 by American Telephone and Telegraph; prospect of a still further increase in home construction in the building season; and steady gains in practically all lines of capital goods all point to a steady up-turn.

WORLD-WIDE IMPROVEMENT. Monetary and credit policies point in the same direction and further support for the favorable outlook is found in the fact that the improved situation in the United States is in keeping with that in other countries. Current expansion in the foreign trade of the world is an increasingly important element in present business activity in this country and in the world generally and is a substantial guaranty of its permanence.



WASHINGTON BRIEFLY

Washington, D. C.

PRESIDENTIAL MESSAGES, budgetary or otherwise, cannot, with certainty, be taken as a measure of legislation by the present Congress. An unwieldy party majority may break up into blocs and cause trouble, but as the session progresses the appearances favor presidential policies and a continuation of the Government's emergency set-up with modifications chiefly in the direction of amplifying what the President asks.

* * *

THAT IS NOT LIKELY to be the case with Government reorganization, but in more routine lines, such as appropriations for recovery and relief, the trend seems evident.

* * *

THERE HAD BEEN talk of limiting the supplementary relief appropriation for the rest of this fiscal year to half a billion dollars, yet the proposals have been lifted to $790,000,000.

* * *

THE PRESIDENT, HOWEVER, has indicated to Congress that if it spends it must provide the wherewithal and that may put a crimp in the principle of amplifying a good thing.

* * *

SOME PLANS of the Government involve so delicate a situation that much amplification by Congress is unlikely. Plainly, the Administration intends to keep agricultural aid in its own hands, but how it can do so in the face of the Hoosier Mills decision of the Supreme Court is uncertain.

* * *

AT PRESENT the plan is to continue the system of distributing benefits on the basis of soil conservation. However, instead of transferring this system to state management at the end of the current calendar year, as provided in the law, the effective date will either be postponed for another two years, abolished altogether, or modified so as to continue the distribution in the Federal Government's hands unless the farmers of a state vote specifically to approve the transfer to state authorities. This, of course, they are not expected to do.

* * *

THE REASON OFFERED is that farmers favor Federal administration of their benefits. Uncle Sam is more generous than the average state government. The expenditures in farm benefits for the next fiscal year are estimated at $482,400,000. There is no doubt that increased powers for the Agricultural Adjustment Administration will be asked and granted.

* * *

THE PICTURE IS NOT altogether clear as to labor legislation. The Administration has indicated its desire of obtaining minimum wages, maximum hours, a child labor ban and other reforms, which were given as the original object of the N.R.A., but there is less talk of legislation and more of voluntary cooperation of industry under Government supervision supported by Government authority.

* * *

ONE REASON for present indefiniteness is the divided state of the labor world. It seems safer to deal in generalities until the situation develops and Congress has had an opportunity to thresh out things to the final stages. As a matter of fact there can be no safe action in the way of labor legislation until the constitutionality of the Wagner Labor Act has been passed upon.

* * *

IT IS STILL SOMEWHAT UNCERTAIN what will be done about the Social Security Act. One thing seems sure, and that is the early death of the old age reserve fund. Even the Administration stands rather aghast at the $47,000,000,000 total contemplated a few years hence, but since a substantial reserve will be required there seems to be no occasion for hurry. There is some probability that the tax will be reduced when final revision is made.

* * *

THE CIVILIAN CONSERVATION CORPS is to be written into the permanent law of the land before March 31, when present authority for it lapses. Authority for an extension of reduced interest rates on farm mortgages held by the Federal land banks is expected to be incorporated into the Agricultural Aid Act.

* * *

THE MISCELLANEOUS REVENUE TAXES, at present limited to June 30, will be extended. Expectation that the undistributed corporate earning tax will be modified is disappearing; so also a probable change in the capital gains tax. The truth is, Congress is afraid to tackle the subject of taxation.

* * *

THE POSITION OF THE ADMINISTRATION seems to be that it will be wise to let well enough alone. "I should like," says the President, "to emphasize the importance of maintaining the productiveness of the present tax structure so that we may properly provide for the fulfillment of our fiscal program." Not much change is forecast in that statement.

* * *

BANK SUPERVISORY AUTHORITIES in Washington have agreed that no revision of the banking laws will be proposed by them during the next month. A meeting of representatives of the three supervisory authorities will be held in March to decide what legislation, if any, will be recommended.

* * *

DETAILS OF HOUSING LEGISLATION are yet to be settled. The Wagner bill which came near passage in the last Congress, will be the basis of new proposals, but many members of the two houses are insisting that the whole movement for better homes, now spread out rather thin in a round dozen Government agencies, be better coordinated.

Volume XXIX No. 8. Published monthly by the American Bankers Association at 22 East 40th St., New York City. Fred N. Shepherd, Editor and Publisher; William R. Kuhns, Managing Editor. Assistant Editors, William P. Bogie and John L. Cooley; L. E. Lascelle, Business Manager. Field representatives, Alden B. Baxter, Advertising Manager, Prentiss Jackson, Jr., and Richard F. Durham, 22 E. 40th St., New York City; Robert W. Kneebone, 230 N. Michigan Ave., Chicago, Ill.; R. J. Birch & Co., Los Angeles and San Francisco, Cal. Washington office, 708 Colorado Building. Subscriptions: $3 yearly; Canada, $3.36; foreign, $3.72; single copies, 25 cents. Entered as second-class matter May 5, 1909, at the Post Office at New York, N. Y., under the Act of March 3, 1879. Additional entry at Concord, N. H.

The Government's Bank Account

Washington, D. C.

THERE is no certainty, of course, that the fiscal plans of the Federal Government mean that the Treasury is to stop borrowing new money and leave idle bank funds with no place to go, but things certainly look as if that might be the case.

In the President's budget message the gross income of the Treasury for the current fiscal year is estimated at $5,828,-150,719 and expenditures at $8,480,804,493, leaving a deficit of $2,652,653,774. This is to be partly covered by a decrease in the Treasury's working balance of $900,128,774, public debt retirement of $404,525,000 will be replaced by refunding securities, and there will be an increase in the public debt of about $1,348,000,000. Since more than $725,000,000 of this estimated increase has been effected in the December and previous financing, there is approximately $625,000,000 of further increase to be arranged for.

Of this amount, $225,000,000 will be taken up by the old age reserve account of the Social Security program which, under the law, must be invested in Government securities. The balance to be raised is approximately $400,000,000. At the present rate of sale the Government's "baby bond" issues will take up perhaps $175,000,000 of this amount while investments of various Government agencies such as the postal savings system may absorb special issues in considerable amounts. The R.F.C. is expected to turn back into the Treasury perhaps $200,000,000 more than it has already paid over during this fiscal year.

In short, there seem to be all sorts of ways of getting the wherewithal for the Treasury without going to the money markets. New financing which will increase demands upon the general investor is approaching the vanishing point and in the fiscal year commencing next July the Government expects to balance its budget and will thereafter stay out of the borrowing business. It is possible, indeed, that in the 1937–1938 season the old age pension reserve, which will be increased by an estimated $525,000,000, and a possible excess of receipts over expenditures may take a billion dollars of the Government's obligations out of the market. After the experience of the past six years it would be an unusual experience for bankers to wake up some morning and find a shortage of Government securities. That possibility is in the offing but it is conditional.

BANK DEPOSIT CHANGE IN PROSPECT

ASSUMING that the Government's plans can be realized, it seems evident that the influence of Treasury financing on increasing bank deposits will also be reduced considerably. Of the contemplated $625,000,000 rise in the debt during the balance of the current fiscal year, all but perhaps $200,000,-000 will be covered by drafts on private deposits in the form of taxes or non-bank subscriptions to Government loans. In other respects the deficit will be covered largely by the transfer of funds from Government to private deposits. The prospect is that there will be considerable change in the nature of bank deposits but comparatively little change in their volume so far as Government financing affects them.

Subtracting the increase in the debt due to the payment of the soldiers' bonus last year, the deficit for the current year is larger than its predecessor; but its most pronounced effects upon banking have already been registered. It is also to be noted that in calculating the deficit for the current year the Treasury includes roughly $667,000,000 of repayments from the R.F.C., the Commodity Credit Corporation, the railways, and agricultural relief agencies. Last year such items amounted to roughly $400,000,000. These credits reduce the current deficits, but they represent expenditures of capital—the absorption of those "recoverable assets" the Government has been offering as a set-off to the constantly mounting public debt.

THE RELIEF RUB

PROPOSED balancing of the budget in the next fiscal year contemplates revenue of $7,293,607,197 and expenditures of $6,157,999,254, or a surplus of $1,135,607,943, with provision for only $316,031,000 expenditures for recovery and relief. There is the rub. As indicated by the President, there is no hope that the amount allotted for relief will be sufficient but the Government expects that the additional amount will not exceed $1,537,123,000, or a total of $1,853,154,000 for the purpose. Assuming that the estimated surplus can be realized, this would indicate a deficit next year of around $400,000,000, relief and all, constituting what is referred to as a "layman's balancing of the budget."

Even that, however, is contingent "upon the assumption that industry will cooperate in employing men and women from the relief rolls in larger numbers than during the last year."

Many of those in charge of industrial management, recognizing their obligation to the nation, have furnished a large measure of employment to the jobless. Today, while it is true that in some sections of the country certain types of skilled workers are still seeking employment, the great majority of those now receiving relief belong to the unskilled group.

In actual fact, the balancing of the budget in the next fiscal year is problematical. The proposals represent a considerable reduction of expenditures, but this year's budget includes around half a billion dollars hold-over on the soldiers' bonus payments, and the first appropriation bill of the new Congress is for $790,000,000 for additional relief funds.

The full measure of the nation's expenditures for relief has never yet been indicated by the original budget proposals and there is nothing to suggest that the hoped for limit of $1,853,154,000 for next year represents finality. In other words, as the latest report of the Brookings Institution puts it: "We are still gambling, so to speak, upon a sufficiently rapid growth in national income to permit a balancing of the budget before confidence in the credit of the Government wanes."

From a long range standpoint the most significant feature of the budget for next year is that the estimated income is $7,293,607,197, practically all of which is raised by taxes.

Governments Must Eat

IN the abstract, public finance is a subject that many of us are willing to leave to government and the professors. In the concrete form of taxes and unbalanced budgets it is familiar enough; but the theories are easily neglected or obscured. In fact, we may sometimes feel that there is no theory behind the raising and expenditure of public money.

Those who wish to go more deeply into the matter will find profitable reading in *First Principles of Public Finance*, by Antonio de Viti de Marco (Harcourt, Brace, $4). Now available in English for the first time, this treatise by a distinguished Italian offers a scholarly discussion of the theory underlying the field in which he has long specialized. It is essentially a fundamental and philosophical study. As the author says in his preface, he treats public finance "as a theoretical science, assigning to it the task of *explaining* the phenomena of public finance as they appear in their historical setting. Hence it is necessary, on the one hand, to go back to the causes of the phenomena, and, on the other hand, to trace their effects."

* * *

A specific phase of public finance—centralization of taxes—is studied by Miss Mabel Newcomer, chairman of the economics faculty at Vassar College, in *Central and Local Finance in Germany and England* (Columbia University Press, $3.50). Although this book primarily concerns what two countries have done in transferring revenues from central to local treasuries, it has a bearing on the present trend of the financial relations between comparable government units here.

Professor Newcomer selected Germany and England because they were countries in which post-war developments had made local governments "markedly dependent on the central government for support." However, she says, it is apparent that "local financial systems in the United States are as incapable of coping with the exigencies of a severe depression as local financial systems in other countries." Our local governments, during later years of the depression, came to depend on Federal and state support almost as extensively as did the local units in Germany and England.

The author points out that the tendency in the United States now is toward uniform and centrally administered taxes which the local governments share directly through the distribution of fixed percentages or indirectly through grants-in-aid.

Germany and England have developed highly centralized tax systems and have reduced local tax powers substantially since the war. In compensation, Germany's central government has built an elaborate system of shared taxes and England's has greatly increased its grants-in-aid. It is with these two methods that the book is concerned.

* * *

This is an opportune time to glance briefly at several books, perennial or otherwise, of a reference nature. In point of size and scope, *A Bibliography of Finance* is outstanding. This monumental volume, issued by the International Finance Seminar in Kobe University of Commerce, is a compilation of material on money and finance published in English, French and German from the 15th century to 1933. The editor is Mitsuzo Masui, professor of international finance and foreign commerce at the Japanese university. The listings (more than 1600 pages of them) embrace books, pamphlets, periodical articles, material in encyclopaedias and government publications, grouped nationally and by subject and period of time. British and American titles are covered separately. One omission is to be noted—the names of book publishers.

Two less ambitious bibliographies are specialized. The Amos Tuck School of Administration and Finance at Dartmouth College has issued the third revision of *A Reading List on Business Administration*, a pamphlet listing about 300 titles of important books published on that general subject during the last two decades. The other is *The Literature of Business Statistics*, compiled by Professor Olin W. Blackett, of the University of Michigan. It gives 370 titles.

A recent useful handbook is *Mathematical Principles of Instalment Financing*, by W. Russell Mules and Owens Laws (McGraw-Hill, $5). It consists of text, yield and discount tables, and formulae for the experienced executive and operator in the instalment field. *American Bank Reporter* (Charles Steurer Press, $10), "the banker's desk directory since 1836", observed its centennial with the 1936 edition last November. The 1937 edition of *Credit Manual of Commercial Laws* (National Association of Credit Men, $5) covers new Federal laws affecting trade, and summarizes state legislation. *Federal Tax Course* (Prentice-Hall, Inc., $10), which has been helping people with their tax problems for the past 14 years, appears in the 1937 edition. Its features include 300 key tax problems with solutions, the 1936 Revenue Act with editorial explanations, and all Treasury regulations on income taxes, clearly explained.

* * *

Two books dealing with contrasting financial setups are *The New Federal Reserve System*, by Rudolph L. Weissman (Harper, $3) and *Soviet Money and Finance*, by L. E. Hubbard (Macmillan & Company, Ltd., $4.50). Mr. Weissman, subtitling his volume "The Board Assumes Control", necessarily traverses much familiar ground, although he strikes a new note by showing how the attitude of the Reserve Governors toward economic issues can influence System policy. He discusses fully the policy views of the present Board. Another interesting feature of the book is a year-by-year thumbnail summary of the System's history since 1919, supported by statistical data.

Mr. Hubbard's contribution to our knowledge of Russian finance, past and present, is a carefully prepared and detailed study, the result of 30 years' acquaintanceship with the country. He has followed closely the Soviet Union's development, especially since 1928 when the first Five-Year Plan was launched, and he analyzes critically the financial system that has been organized to meet the needs of a socialist economy. Many more changes will be required, he finds, before the problem is finally solved.

"Unforeseen events . . .
need not ~~so often~~ change and shape the course of man's affairs"

Passport to Safety

TODAY'S industrial worker is actually safer on the job than at home. From the moment he punches his time card in the morning until the whistle blows that night, he works under the vigilant protection of safety devices and plant regulations unknown or unheard of only twenty years ago.

His lot is in striking contrast with that of his predecessor of 1917, when death by accident took nearly twice as many workers as it does today. Even more significant is industry's record when compared with automobile fatalities and the fatal accidents in homes.

Pioneers in the development of industrial safety engineering are the casualty companies of the country. The Maryland, for example, *has not once failed to lessen both the number and seriousness of accidents in any industrial plant where its recommendations have been put into effect*. Recommendations of this kind not only save countless human lives, but also improve production efficiency and return substantial savings to the employer.

In industry, as in almost every other phase of human enterprise, The Maryland plays a definite part in assuring that Unforeseen Events *need not* affect the course of man's affairs. Enlisted in the cause are a nation-wide corps of engineers, 5,000 affiliated physicians and 10,000 Maryland agents covering every state in the Union, Alaska, Canada, Cuba, Puerto Rico, the Canal Zone and Hawaii.

THE MARYLAND

MARYLAND CASUALTY COMPANY • BALTIMORE

The Maryland writes more than 20 bonding lines, including . . . Fidelity . . . Bankers' Blanket . . . Contract . . . Check Alteration and Forgery . . . Depository . . . Fraud Public Official Bonds . . . Judicial. More than 40 types of Casualty Insurance, including . . . Aircraft . . . Engine . . . Automobile . . . Burglary . . . Boiler . . . Elevator Accident and Health . . . Fly-Wheel . . . General Liability . . . Plate Glass . . . Electrical Machinery . . . Sprinkler Leakage . . . Water Damage . . . Workmen's Compensation.

Many Little Bureaucracies

Washington, D. C.

CONGRESSIONAL opposition to the reorganization of the Federal Government as proposed by President Roosevelt was anticipated inasmuch as Congress has many times demonstrated that while it favors consolidations, re-groupings and economies in general, its members individually are opposed to reorganization which affects them or their protégés. In the present instance the proposed reorganization is so sweeping and fundamental in its scope that abundant hooks upon which to hang opposition are offered.

In the present system there are over a hundred independent agencies responsible only to a Chief Executive already overwhelmed by the duties placed upon him by law. The President's Committee believes that no Government department, no Cabinet officer, can supervise more than 10 such agencies or divisions.

From the standpoint of numbers and volume of business alone the grouping of these agencies under administrative heads means at least two additional Cabinet officers. Inasmuch as the Government now has no department whose scope includes public welfare and public works it is proposed that two new departments be created to administer the many agencies now concerned in such activities. This involves a change in name of the Interior Department to the Department of Conservation, an unimportant change except that it indicates lines of possible development. The same reasoning suggests the advisability of increasing the President's staff by perhaps six executive assistants. The present staff is entirely inadequate, necessitating the borrowing of men from here and there in the Government in circumstances inconvenient for all concerned. Most Cabinet members now have "assistants to the Secretary" or "special assistants to the Secretary."

I would not have you adopt this five-point program, however, without realizing that this represents an important step in American history. If we do this, we reduce from over 100 down to a dozen the operating executive agencies of the Government, and we bring many little bureaucracies under broad coordinated democratic authority. — The President's message to Congress on Government reorganization

The Committee's recommendations look to a grouping of all Government agencies and corporations under 12 departments.

* * *

SOME reasons for this regrouping and consolidation have been given by Senator Byrd of Virginia, chairman of the Senate Committee on Government Reorganization. Pointing out innumerable instances of "glaringly obvious, overlapping functions and useless agencies," Senator Byrd states that there are 50 Federal agency legal divisions in Washington alone. There are at least 24 agencies lending Government money, three concerned with insuring deposits and loans; 34 with acquisition of land; 16 with wild-life preservation; 10 with Government construction; nine with credit and finance; 10 with materials of construction, and at least 12 with home and community planning.

There are 46 Government personnel officers in Washington, 104 information and publication offices, 126 agency libraries, 51 traffic managers who arrange for transportation, and hundreds of former newspapermen employed by the Government in the press sections. The Senator said the magnitude of Federal expansion outside of Washington was illustrated by the fact that "we lease or own office space equivalent to 52 Empire State buildings, or more than one Empire State building for each state in the Union"—all outside of Washington.

Proposals for Government reorganization by the congressional committees which have been considering the subject are yet to be formulated and will probably be presented to Congress in the form of a bill based on the outline submitted by the President. It is known, however, that they will contain many specific recommendations made in a report by the Brookings Institute which has been carrying on research work in

behalf of the Committees. Not the least of these recommendations is that the greater part of the loans now held by various agencies be transferred to either the Treasury or to commercial and savings banks under some form of insurance against loss.

* * *

REORGANIZATION on the basis of efficiency naturally involves trained personnel and civil service status for Government employees. The President's Committee recommends abolition of the Civil Service Commission and organization of a new authority under a single head subject to the check and review of a non-partisan citizens' committee. It proposes that all Government employees except officers connected with the formulation of policies be brought under civil service rules.

Although there is general approval for the idea of a permanent career service in the Government, its practical application to the hundreds of thousands of employees involves administrative and political difficulties. There is particular objection to the freezing into the permanent Government set-up of 325,000 politically appointed non-civil service employees, now mostly in the emergency agencies. Twenty such temporary or emergency agencies expire during the current year and it is felt in Congress that placing their employees under civil service will result in a more or less permanent incorporation of these establishments in the framework of the Government.

Objection is also raised by an influential bloc in Congress to the proposal of the President's Committee to substitute for the Comptroller General an Auditor General under supervision of the Secretary of the Treasury. At present the Comptroller General is appointed by the President for a single term of 15 years and is responsible to Congress alone. He has the power to control expenditures under appropriations by interpretations of the law. This power has led to constant friction between the Comptroller's office and the various departments under each administration, and undoubtedly has weakened executive responsibility in financial matters. Under the proposed system the Auditor General would be merely what the name implies—an auditing agency. Questions of interpretations of appropriation acts would be handled by the Attorney General. It is contended by advocates of the Comptroller system that abolishment of the office would remove a necessary check upon the expenditures of the various departments.

NEW REMINGTON RAND DEVELOPMENTS

GIVE COMPLETE FIRE PROTECTION

TO CHECKS AND LEDGER RECORDS

When factory machinery outlives its usefulness, every executive of the company knows it. Production falls off . . . costs increase . . . competition offers a better product for the money. Like machinery, bank systems and methods get out-of-date—only the resulting loss in time and money is hidden. During the past seven years, banks have allowed their commercial bookkeeping to get along as best it could. In the meantime, Remington Rand developments have brought improvement to practically every phase of bank accounting. For example, today Remington Rand offers not only entirely new working convenience but also *complete fire protection* for checks and ledger records during working hours . . . protection every bank should have for the irreplaceable papers of its business.

TWO-HOUR FIRE PROTECTION FOR VITAL LEDGER RECORDS *at point of use*

Don't wait until you've had a fire. Don't wait until vital ledger records are lost forever! You owe it to yourself and to your bank to investigate this new Remington Rand Safe Ledger Tray now.
Check the plus values this new filing tray offers in addition to two-hour certified fire protection. Greatly increased filing range. Insert tray rises automatically to correct filing height. New tilting front plate permitting easier access to work. Complete portability. Rolls easily wherever you want it—to operator's station, to reference point, to executive's office. These are but a few of its many new advantages. Mail the coupon below today for complete illustrated booklet.

DON'T LET THIS HAPPEN TO YOU. *A ten minute fire in a fire-proof building can char vital ledger records, housed in ordinary steel files, to worthless ashes. Insurance doesn't cover record losses.*

CERTIFIED TWO-HOUR FIRE PROTECTION *at point of use. This new ledger tray opens at a touch, closes and automatically locks in two seconds, completely protecting contents.*

MANY UNIQUE WORKING ADVANTAGES. *For example, tilting front plate provides ample working space without moving follower block a fraction of an inch,*

INSULATED CHECK FILE DESK GIVES ONE-HOUR CERTIFIED PROTECTION

Complete the protection of your operating unit with this Remington Rand Check File Desk. Serves as a combination sorting table, posting shelf, check file and signature card file. Gives one-hour certified fire protection to your receipts for money paid out. Each of the three drawers has three removable check trays. Linoleum sliding top extends out sixteen inches from the body of the desk, furnishing additional comfortable working surface. Call in your Remington Rand man or mail the coupon for full details. No obligations.

Rand

MAIL THIS COUPON TODAY

Remington Rand Inc. — Bank Department B-12
465 Washington Street, Buffalo, New York

Please give me, without obligation, full details of your
☐ Two-hour Safe-Ledger Tray
☐ One-hour Check File Desk

Name..
Bank..
Address.......................................
City.......................... State..........

Census of Other Lenders

(See maps, page 37)

FINANCIAL institutions in the United States other than banks, many of which are in direct competition with the latter, probably come close to outnumbering them by two to one. The report of the Census Bureau on the subject, based upon the census of business carried on during the past year, lists 24,520 such establishments. The census, however, covers only security brokers and dealers, building and loan associations, instalment finance companies, personal finance companies and a few miscellaneous establishments, and in all these classes it is admittedly very incomplete.

The lack of mandatory legislation compelling proper returns from all such concerns, the difficulty on the part of enumerators of identifying all such establishments, the lack of previous information on the subject which would give leads and make checking possible, the incompleteness of published lists and other factors have made it impossible for this to be much more than a beginning for future work, although it is certainly valuable so far as it goes.

COVERAGE COULD NOT BE COMPLETE

THE short coverage noted by the Bureau in its report was especially marked in its returns on security brokers and dealers, instalment finance companies and personal finance companies. In the field canvass, branch establishments were counted as units, with the results that direct comparisons with banking establishments are made all the more impracticable. Coverage also has varied as between the several classes of establishments and as between the same sort of businesses in the several parts of the country.

Discounting all these shortcomings in this first attempt to secure reliable data as to the extent of the business, the amount of employment given and other pertinent information in regard to what has come to be an important factor in the national credit organization, it is still possible to make some comparisons of interest. For example, the annual payroll of banks in 1935 reported by the census of banking establishments was $487,694,572. That reported for the non-banking financial concerns covered by the present report is $274,953,713. The total number of employees in all banks reported was 266,458; in these non-banking institutions, 161,090. In other words, although numerous, the average non-banking institution is small; but in the aggregate these concerns have a considerable part in the financial picture. Details of the several classes of concerns are indicated in the table below.

DIRECT COMPARISONS HARDLY FAIR

WITH comparatively limited coverage of some classes of establishments included in these figures, a direct comparison with data relating to banking institutions is probably unsafe. However, it may be worth noting that the average salary paid all officers and employees in these non-banking concerns in 1935 was $1,700 as compared with $1,830 for banks. Officers in the non-banking concerns received an average salary of $2,129 as compared with $2,682 for bank executives, while other employees received $1,590 as compared with $1,291 in the banks. The comparisons are hardly fair, however, since in a considerable number of the non-banking concerns, especially in the new Federal savings and loan associations, much of the operations were carried on by unpaid officers.

All the figures in relation to the non-banking establishments, in fact, can hardly be considered as more than a preliminary study.

Non-Banking Financial Institutions

	Number of Establishments	*Active Proprietors*	*Total Employees*		*Executives and Salaried Officers*		*All Other Employees*	
			Number	*Payroll*	*Number*	*Payroll*	*Number*	*Payroll*
Security Brokers and Dealers	7,224	7,807	77,329	$162,259,657	5,042	$29,460,537	72,287	$132,799,120
Single	4,678	5,730	28,769	57,726,823	3,244	15,724,941	25,525	42,001,882
Multiple	2,546	2,077	48,560	104,532,834	1,798	13,735,596	46,762	90,797,238
Building and Loan Associations	8,118	...	31,806	27,744,044	21,754	18,658,999	10,052	9,085,045
Federal	896	...	2,758	3,470,412	1,576	2,253,594	1,182	1,216,818
State	7,222	...	29,048	24,273,632	20,178	16,405,405	8,870	7,868,227
Instalment Finance Companies	2,331	598	18,639	30,936,866	2,230	8,202,763	16,409	22,734,103
Single	1,386	551	6,299	10,871,556	1,651	5,251,080	4,648	5,620,476
Multiple	945	47	12,340	20,065,310	579	2,951,683	11,761	17,113,627
Personal Finance Companies	4,015	1,184	15,570	23,320,986	2,700	6,654,645	12,870	16,666,341
Single	2,206	1,086	5,796	8,300,218	1,970	4,090,396	3,826	4,209,822
Multiple	1,809	98	9,774	15,020,768	730	2,564,249	9,044	12,456,519
Mortgage and Farm Mortgage Companies	954	220	6,232	9,989,543	1,385	4,111,826	4,847	5,877,717
Miscellaneous	1,878	1,055	11,514	20,702,617	1,672	6,918,445	9,842	13,784,172
U. S. Total	24,520	10,864	161,090	$274,953,713	34,783	$74,007,215	126,307	$200,946,498

Social *Security*

• The new Social Security program of the Federal Government will perform an invaluable function. It will provide a more universal backlog against the disability of old age. Still more important, it will suggest to ambitious men, not content to go toward old age without provision for more than the standard of living available to all, the necessity of building more adequately for the future, and the even more urgent necessity of protecting wives and children. The result will, we believe, be a sharp increase in the use of life insurance.

For many years N^W^NL has been the first life insurance company in the country to publish its statement—promptly after the close of business December 31. Herewith it presents its 52nd annual financial statement.

N^W^NL's record of growth during the last decade has been universally recognized as outstanding even when compared with the fine showing of all life companies.

Yet N^W^NL has never ceased building for stability. Its growth has been exceptionally sound and stable:—during the last ten years, while its insurance in force increased 68% and its assets 141%, *its surplus to policyholders and contingency reserves increased* 172%.

In the statement below, as heretofore, bonds in good standing are entered at amortized values; those in default, at December 31st market prices. If *all* bonds were carried at market prices, surplus funds would be increased by $2,143,529, from $5,441,364 to a total of $7,584,893.

O. J. Arnold
President

52*nd* ANNUAL STATEMENT OF
Northwestern National Life Insurance Company, MINNEAPOLIS

December 31, 1936

RESOURCES

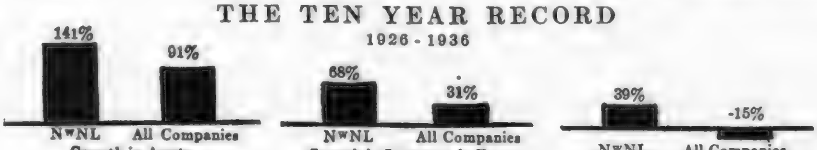
Cash	(*4.6%*)	$ 2,737,350
U. S. Gov't Securities	(*21.5%*)	12,927,034
Bonds Fully Guaranteed by the U. S.	(*6.7%*)	4,034,338
Canadian Gov't Securities	(*.8%*)	472,089
Other Bonds:		
State, County, and Municipal	(*6.2%*)	3,731,680
Railroad Mortgage Bonds	(*7.8%*)	4,693,631
Railroad Equipments	(*3.3%*)	1,992,509
Public Utility	(*15.8%*)	9,488,554
Industrial	(*.7%*)	417,872
Miscellaneous	(*.5%*)	309,395
First Mortgage Loans:		
Farm Loans	(*1.9%*)	1,159,166
City Loans	(*6.0%*)	3,566,880
Policy Loans	(*15.3%*)	9,203,906
Real Estate (Including Home Office Bldg.)	(*4.7%*)	2,788,626
Real Estate Sold Under Contract	(*.1%*)	79,264
Premiums, Due and Deferred	(*3.0%*)	1,795,785
Interest Due and Accrued and Other Assets	(*1.1%*)	648,975
TOTAL	(*100%*)	$60,047,054

LIABILITIES

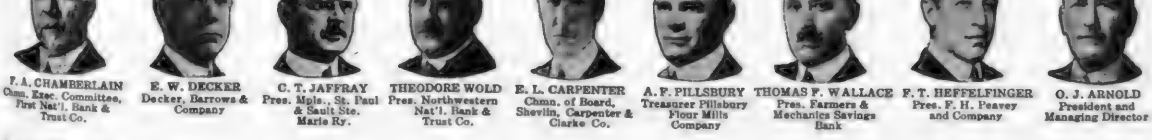
Reserve on Policies		$46,454,895
Death Claims Due and Unpaid		None
Claims Reported but Proofs Not Received		179,670
Reserve for Claims Unreported		75,000
Present Value of Death, Disability, and other Claims Payable in Installments		2,804,823
Premiums and Interest Paid in Advance		347,095
Reserve for Taxes Payable in 1937		326,785
Profits for Distribution to Policyholders		2,080,937
Asset Fluctuation and other Reserves		2,336,485
Surplus Funds and Capital:		
Voluntary Contingency Reserves	$2,229,747	
General Surplus	2,111,617	
Paid-in Capital	1,100,000	5,441,364
TOTAL		$60,047,054

Insurance in Force $394,639,015

THE TEN YEAR RECORD
1926 - 1936



BOARD OF DIRECTORS



F. A. CHAMBERLAIN, Chmn. Exec. Committee, First Nat'l. Bank & Trust Co. — E. W. DECKER, Decker, Barrows & Company — C. T. JAFFRAY, Pres. Mpls., St. Paul & Sault Ste. Marie Ry. — THEODORE WOLD, Pres. Northwestern Nat'l. Bank & Trust Co. — E. L. CARPENTER, Chmn. of Board, Shevlin, Carpenter & Clarke Co. — A. F. PILLSBURY, Treasurer Pillsbury Flour Mills Company — THOMAS F. WALLACE, Pres. Farmers & Mechanics Savings Bank — F. T. HEFFELFINGER, Pres. F. H. Peavey and Company — O. J. ARNOLD, President and Managing Director

BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

FEBRUARY 1937

Legislative Melting Pot

Washington, D. C.

ON January 13 there was a conference in Washington of representatives of the office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Federal Reserve System, constituting what is known as the "Bank Legislation Committee". (See page 36.) Subsequently, it was announced in the press that no bank legislation would be suggested by the Federal supervisory authorities in the present session of Congress. On the face of the record this announcement represented agreement; in actual fact it represented an agreement to disagree. The present situation with regard to bank legislation is satisfactory to none of the Federal authorities concerned. It is a case of stalemate.

THREE VIEWPOINTS INVOLVED

EXACTLY what happened in the January conference is known only to those party to it and they include several quiet persons determined upon keeping official secrets. Piecing together bits of information obtained here and there, however, and reading between lines in official reports, addresses and previous recommendations for legislation, the situation becomes somewhat clearer. Each of the three supervisory agencies has or believes it has need of certain legislation, mostly of a technical, corrective nature but in some cases involving matters of major policy.

It might be said, for example, that the Comptroller of the Currency is anxious to extend branch banking in national banks, to bolster the waning, attenuated authority and scope of his office and to preserve his official independence in such matters as the chartering of new banks. The Reserve authorities have given evidence of a desire to extend the scope of their organization, obtain better control of the credit situation by controlling more banks, extend branch banking and to establish uniform rules as to the payment of interest on deposits and as to what constitutes the payment of interest. The F.D.I.C. is known to be anxious to prevent the chartering of new national banks or the admission of banks into the Reserve System without its consent; such steps automatically carry institutions into the deposit insurance system. There are indications, also, that the corporation is dissatisfied with present bank examinations in national and member banks—all this in the interest of sound banking.

Thus, to some extent, the plans and desires of each supervisory agency impinge upon the plans and desires of the others. Each refuses to agree to any legislative program which does not protect or advance its own interest or what it deems the public interest. A deadlock has been reached; it prevented legislation a year ago, and may continue to do so indefinitely. The bank legislation committee is to meet again in March, but there is nothing to indicate that agreement can be reached at that time.

Now comes the report of the Brookings Institution to the Senate Committee considering the reorganization of the Federal Government, which recommends that the office of the Comptroller be abolished; that the examination, chartering, and general supervision of all banks, member and non-member, which enter the deposit insurance system, be turned over to the F.D.I.C. as the sole supervisory authority, and that the activities of the Reserve System be confined to matters of broad policy, the control of credit, and proper central bank functions. This proposal is known to have the support of a strong bloc in Congress, particularly among those groups now actively working for the reorganization of the Government and especially its financial and loan agencies.

THE IMMEDIATE PROSPECT, AT LEAST

THE effect of this proposal with the support it appears to have is to throw the whole subject of bank legislation into the melting pot. It is not necessary to pass upon the merits of the proposal to realize that to change the authority under which banks admitted to the insurance system are chartered and to constitute one authority for the examination and supervision of banks within that system is to touch the very fundamentals of banking in the United States. The proposal, in fact, comes quite close to uniform and unified banking in the country at large; far beyond anything that has been considered practicable up to the present time. At least, it constitutes an attempt to substitute broad action for the less ambitious efforts to strengthen the bank organization which have been customary in the past. Regardless of individual views, this project, as important as the Banking Acts of 1933 or 1935, must in all probability be dealt with. The issue will be pressed to a decision and constitutes, as far as can be foreseen at this time, the prospect for banking legislation in the 75th Congress.

GEORGE E. ANDERSON

$5,000 Worth of House

By KENNETH MURCHISON

A NATION-WIDE questionnaire has recently been broadcast by this magazine on the subject of new housing: what is it possible to buy in the way of a finished dwelling on its own lot for $5,000, and how much for $7,500?

What one gets today for those amounts is more than what one will get tomorrow, for prices of materials are going up, and skilled mechanics are getting scarcer. We hear little of the prefabricated house, except at that particular moment when some steel company thinks it has solved the problem of a low-cost home to be put up in three days and carted away when the owner gets tired of his neighbors.

NEW ENGLAND

THEORETICALLY, one should get the most for his money in a locality where lumber is cheap and labor plentiful, say in Florida, or Kansas, or the Carolinas. (Out in California reports have it that all the carpenters and painters are working on movie sets at fabulous wages.) But even in those localities the purchaser with $5,000 burning a hole in his trousers pocket will hardly get more than a five-room house—that is, with two bedrooms and a bath. And a one-car garage, naturally, with hot-air heating, and no more attempt at air-conditioning than a small blower to push the air around.

In New England, especially in Massachusetts, the Cape Cod style of dwelling seems to strike the popular fancy. Shingled walls and roof, five or six rooms, an oil burner in the basement, and the kitchen equipped with what is hopefully termed "modern improvements"; that is, an electric refrigerator and metal cupboards, with a gas range where gas is available, which generally is the case in a suburban development. For $7,500 the home-seeker might get one additional bedroom and another bathroom, 25-foot greater frontage on his property and all his rooms larger by two or three feet in each dimension.

EASTERN SEABOARD AND SOUTH

WHATEVER the locality, nothing less than a five-room house would be a good risk for a builder to take and that is really one room too small, for it we take an average family of four, with children of different sexes, that family will require three bedrooms. Still, at present, the big demand is for a $5,000 house, no matter whether the location is in the East or West, the North or the South.

New York and New Jersey will give you but five rooms for your five thousand dollars, the usual one-car garage, a frontage of 40 feet in a suburban locality, and your assessment will be based on about $3,500. For the higher figure of $7,500 you may find some brick-veneer-on-frame houses, six or seven rooms, a two-car garage, but with no air-conditioning.

As we journey down the Atlantic Seaboard, and get below the bustling and over-crowded City of Washington, we ought to get more for our money. And we do, according to our Florida correspondent, who tells us that we can get a brick veneer house of six rooms and garage for $5,000, sometimes with steam heat in place of hot air. But that must be in Key West or in some other place where frost is unknown and where the ever-present sun shining on the window panes heats up the house in any kind of weather!

Down there a $7,500 house may have as many as eight rooms, with modern kitchens and tiled bathrooms. Before very long, however, we may expect to see a plastic material invented which will have all the advantages of tile at a fraction of its cost. Indeed, artificial marble today is difficult to tell from the real article, has the same mirror-like surface, has the same beauty in veining and color.

MIDDLEWEST AND PACIFIC

IN the Midwest, the housing demand is heavy indeed. In some parts of Ohio they sell a brick-veneered, six-room house for $5,000, in other locations little or nothing for less than $5,500. But this latter figure may include a separate garage, which some people prefer to one which is an integral part of the house. Ohio says, however, that increased building costs are rapidly putting the $5,000 houses into the limbo of forgotten opportunities.

For $7,500 in the Buckeye State, one often finds included in his house a two-car garage, forced air with a blower attachment, and thermostatic control, but only about the same number of rooms as in the lower priced home.

In Indiana they can do no better, from our information, than five rooms for $5,000, and nothing more expensive than wood for the exterior effect. After all, there is nothing to cavil at in a wood exterior except that it has to be painted every so often. If you are young and acrobatic and don't mind a certain amount of paint in your eye, you can do it yourself, but if you're a bank president—or even a vice-president—you should hardly be found on a ladder Saturday afternoons. Personally, we (editorially speaking) like wooden houses.

In Michigan, Tennessee, Minnesota and Kansas, almost all the five-thousand ready-to-occupy houses are of the five-room type, frame, perhaps here and there a smattering of brick veneer, with gas or oil hot-air furnaces, on a 40- or 50-foot lot, graded but not landscaped. For the higher figure of $7,500, a room or two extra may be found, with a blower system in the furnace, with a brick veneer and stone base.

For $7,500 in California they include an extra bedroom and bath, with a gas-fired furnace. They scorn air-conditioning! In California? Never. The air of California, my dear sir, is conditioned by nature—one hundred per cent!

To sum up the results of this questionnaire of ours, the average house selling for $5,000 will contain five rooms, one bath and a garage for one car. It will be pleasantly located on a lot some 40 feet wide, it will probably have a lawn, but you will have to build your own swimming pool! The construction should be of a reasonably sound design and workmanship; lending institutions should scrutinize not only the specifications but the designs of the house. All waste in hallways, in turns of stairs and in vestibules or entrances should be eliminated. The plumbing should be substantial but not ornate; the furnace should adequately do its job; every electric outlet should be of the double type.

If a builder can do all these things and make a reasonable profit on a house of good appearance selling for $5,000, he is doing all that can be expected, something that we fear will not last very much longer.

Money to Burn

By J. E. LE ROSSIGNOL

Dean, College of Business Administration, University of Nebraska

ALL three prairie provinces of Canada—Manitoba, Saskatchewan and Alberta—have had more trouble than the rest of the Dominion during the past seven years because of the low price of wheat, high transportation costs, drought and debt. No wonder, then, that radicalism of every kind has flourished there and that a prophet has arisen to voice the woes of the people and lead them out of bondage into a promised land.

For such a mission William Aberhart, college graduate, high school teacher and idealist, endowed with personal magnetism, volubility, and a persuasive voice, was peculiarly fitted. Besides, as dean of the Calgary Prophetic Bible Institute and radio broadcaster, he had already established a reputation. Then, too, about the year 1931 he became a convert to the social credit theories of Major C. H. Douglas, and thenceforth carried on a combined propaganda for the religious and social salvation of Alberta. He had his reward on October 14, 1935, when, as head of the Social Credit Party, he was elected to the provincial legislature, after which he became Premier of Alberta.

PROSPERITY WAS DECREED

VISIONARY as Mr. Aberhart appears to be, it must be admitted that he has tried to keep his pre-election promises and, for good or ill, has done something. In the Spring of last year the legislature passed the Social Credit Measures Act designed, according to Section 7, "to bring about the equation of consumption to production and thus to ensure to the people of the province the full benefit of the increment arising from their association."

Whatever that may mean, during the Summer there was issued something like $260,000 in "non-negotiable certificates", otherwise known as "prosperity script", "rapidity dollars", or "tin-bank money". These certificates were paid out to laborers on relief work and for other governmental expenses, and were expected to circulate rapidly because the holders were required to put a one cent stamp weekly on every dollar bill, which, in the course of two years, would provide a fund for redemption.

But, as this was a sales tax of 1 per cent, more or less, on every transaction, and as the certificates were not receivable for taxes, nor accepted outside the province, nor welcomed by the banks, and as the legislators declined to take them in part payment of their salaries, their circulation was limited and brief. The government, therefore, provided for their redemption in regular money once a month, so they have mostly disappeared from circulation, though collectors have kept some as souvenirs.

The same act provided for the creation of the Alberta Credit House, a sort of bank without capital, but with power to establish branches, receive deposits, and make loans without interest—in Alberta credit certificates. The act also provided for a system of "voluntary" registration, under which about 350,000 people are said to have registered as the first condition of their receiving the long-awaited "basic dividends", and as a preliminary step toward the Alberta price fixing system. In thus registering, a farmer, for example, agrees to sell part of his crop in Alberta for Alberta credit certificates, when called upon to do so. Similarly, employees agree to take part of their salaries in certificates, while merchants, manufacturers and other registrants agree to accept the certificates much as though they were legal tender.

As to the monthly "basic dividends" of $25 to be paid to each and every adult citizen, with smaller payments to juveniles, Mr. Aberhart promised that they would be forthcoming 18 months after the election. Now, however, he mentions $5 a month and fears that payment may not begin for another six months.

Another radical measure, the Debt Reduction and Settlement Act, was passed by a special session of the legislature last Summer, and has done much to restore the waning popularity of the premier with the people of Alberta, most of whom are debtors. By this law, in the case of debts incurred before July 1, 1932, interest is wiped out from that date and later payments are to be applied to the reduction of the principal, without interest. New debts also are similarly scaled down. Then, too, interest rates on provincial bonds and government-guaranteed municipal bonds have been cut from an average of 4.89 per cent to 2½ per cent. This, according to a recent statement by the Hon. N. V. Rowell, Chief Justice of Ontario, is quite legal, as the British North America Act of 1867, which is the Canadian constitution, gives to the provinces jurisdiction over property and private rights.

SOMETHING WENT WRONG

AS to the results of all this, it appears that Alberta's credit has been temporarily shattered and only the hope of returning sanity prevents complete collapse. Practically no capital is coming in to develop the coal, oil, natural gas and other resources of the province, and much capital has taken wings. There is unrest, also, in the Aberhart cabinet. Already one member of it, the Hon. C. C. Ross, Minister of Lands and Mines, and a competent engineer, has resigned, and in his place the Premier has appointed the Hon. Nathan E. Tanner, school teacher and Mormon bishop.

Evidently, Mr. Aberhart is in a difficult situation. On the right are some farmers and cattlemen, many of the clergy, most of the merchants, manufacturers, and newspaper editors, and, of course, all the branch managers of the great Canadian banks. On the left are debtors, believers in social credit, pink socialists, and communists. At present the Premier is steering a middle course, though veering, as navigators and politicians do, with every change in the wind.

Fortunately, the forces on the right are being reunited by sadder and wiser men, so that the outlook is by no means desperate, especially as the eastern creditors are more willing than formerly to compromise with their western debtors. If they had sooner realized the difficulty of the situation in the prairie provinces, the Alberta experiments might never have been tried.

Inflation Is Rosy as a

By ROGER W. BABSON

THESE thoughts are addressed to veteran bankers; also to all other investors who have been through the financial wars. Speaking both as a banker myself and as a humble investor, I frankly confess: We want to know! This is a day when potential shrinkage in the buying power of money is insomnia for every banker and boxholder in the country. For the present, the economic skies are mainly bright and fair. They are flecked chiefly by inflation. Just now it is "a cloud no bigger than a man's hand". But that hand is the hand of Roosevelt! Do not misinterpret this. It is not that the President personally desires inflation, but that he may be powerless to prevent it. To stop inflationary forces once they have been kindled, is as desperate a job as to put out a prairie fire with an atomizer.

When serious inflation will come, or what form it will take, no responsible student of the situation is ready yet to hazard a final forecast. I, however, fail to understand how the Roosevelt Administration can fulfill all its promises without being driven to resort to inflation of some brand. The New Deal has entered into some heavy engagements—by declaration, by implication, and by inference. It has undertaken, for example, to bring back jobs and lift wages without breaking the bones of legitimate industry. It has undertaken to make farming pay, to unhook the chains of the debtor, to clear out slums, to foster a building boom, to rehabilitate capital goods, and to give youth a chance. Finally: To balance the budget and to cut taxes.

IS THERE A MAGICIAN IN THE HOUSE?

THAT is the juicy red meat of anticipation upon which the public has been fed. Brain Trust promises have formed the habit of lip-smacking and chop-licking. Unless the mirage is made to materialize, the mob will roar and whine for the President and Congress to pull from the hat the wriggling rabbit of inflation. Nothing less than magic can satisfy the expectations that have been built up.

Inflation, to a limited extent, is already with us. You need write only a few letters, make a few 'phone calls, and check a few of your customers' accounts, to discover that inflation is now affecting different industries in different ways. Most industries take profits by inflation during its early stages; but all suffer losses in the end.

From automobile manufacturing to zinc mining, few if any industries are immune to the ultimate inroads of inflation. Bubbles are "inflated" and the fate of a bubble is to burst. If inflation is to come, the only sensible goal for any banker, investor, or business man, is protection and not profits and profiteering. When menaced by a crime wave, your attitude is how to safeguard your bank from burglary—not how to make money on the burglar. That same basic viewpoint applies to the threats of inflation.

In general, the best protection has been gained by those industries which had the most complete ownership or control of raw materials. The worst victims have been the industries which had to pay the soaring costs of raw materials but could collect only the relatively lagging prices of semi-finished or finished merchandise. Inflation puts this latter group into a tragic plight, caught between the grindstone and the sanding belt.

In the building and construction industries for example, the "little fellow" living from hand to mouth has fared far worse under inflation than the big organization protected by large inventories. The coal industry, today depressed, might spurt into new life under the stimulus of inflation; for this is an industry which owns its raw material—provided that bootleggers have not taken it all! Chemicals are another inflation-resistant industry. Besides their ownership of materials, the chemical industries further benefit by their comparative independence of labor and by their continuous improvement of efficiency. Both of these points are helpful safeguards in a period of serious inflation.

Among the public utilities, past performance of inflation in other nations indicates that water power companies should do better than those which are pressed by rising costs of coal and other operating items. Natural gas companies owning their sources of supply tend to meet inflation more successfully than those manufactured gas companies which must be heavy buyers of coal. In a day of inflation, temporarily the whip hand is held by paper companies which own or control their sources of pulp, lumber companies which have great holdings of timber, steel companies possessing vast supplies of ore, petroleum companies which own or control acreage or pipelines, tire companies which have developed rubber plantations and textile plants. All such integrated units are in a strategic position under inflation.

In making the above statement, I insist upon two qualifications. In the first place, it should be remembered that during an inflationary craze, the Government may try to step in and restrict or reverse the natural tendencies of the times. In other countries, frantic governments in terror of a still more maddened citizenry have struggled to put a ceiling upon rentals and the prices of the necessities of life. The eventual fate of any such artificial ceiling usually has been that price pressure blew off the roof. Temporarily, however, the most carefully laid plans of protection may be upset by price pegging. Such possibilities make safeguarding against inflation doubly difficult. It is one more reason why diversification is the best policy.

BANKS ARE VICTIMS, TOO

WHAT about banks in particular? *Theoretically*, banks which are operated conservatively should not be damaged by inflation. In the first attack, bank stocks advance under inflation and everything looks as rosy as a winter sunset. For a time it appears as if banks would have a charmed life under inflation. For instance, assume that on this very day a hundred fairly sound dollars are shoved into your receiving teller's window. Now let inflation overcome us, and a few months later your paying teller can return the deposit by handing back a hundred phoney dollars. In short, deposits need be paid only in "dollars", irrespective of their value. Under inflation, the only part of your dollar that escapes damage is its denomination; that alone remains unspoiled.

The above rule, however, cuts both ways. With inflation raging, as loans are paid, the dollars which your bank receives never have quite the purchasing power which these

Winter Sunset

dollars had when loaned. Your bank's expenses are continually going up and punching holes in the ceiling. Hence your capital and surplus is gradually being chiselled down. Your coin of profit is clipped and sweated. Those are reactions which bankers must face. The whole history of inflation painfully teaches that banks, along with everything else, suffer badly in the final adjustment.

CONCLUSIONS:

1. Non-convertible bonds and mortgages suffer terribly. Their purchasing power becomes greatly reduced. Callable bonds suffer the most. Preferred stocks are also a poor investment unless converted into common stocks.

2. Real estate, properly located and constructed and *useful*, is probably one of the best hedges. Along with this should be grouped commodities and other forms of useful things—such as good furniture, pictures, books, jewels, collections, etc.

3. A reserve of cash or *good* short term notes which will carry one through the period of readjustment, considering only a year or two at a time, is very necessary. A large working capital is absolutely essential.

4. Stocks of companies which own sufficient supplies of raw materials and have large cash reserves to supply all needed working capital during the inflationary period should be a good hedge. It was lack of working capital which "busted" so many corporations in Europe between 1920 and 1930. Diversify broadly. Concerns such as chain stores, movie houses, restaurants, etc. which do a cash business with flexible prices, may come through very well; also those engaged in colonial trade with primitive people should do even better.

5. Most important of all, one should use his time and money to prevent inflation before it comes and store up health and other fundamentals of life to see it through.

The above means as follows: Invest 20% in useful real estate and commodities; 20% in very short term bonds which are sure of payment at maturity; 60% in a carefully selected list of common stocks. Even to those who exercise the greatest care, however, all experiences with inflation are very disheartening. Inflation brings grief to everyone.

Let us try to answer the specific question with which we started: Is there any such thing as inflation-proofing your investments? If you insist upon a flat Yes or No, my answer must be: No. Against the ravages of serious inflation, bankers and investors can protect themselves in part but not in whole. The great difficulty in hedging lies with the following two facts:

(A) The inflation works quietly. It is both illusive and elusive. It is like a deep-seated, stealthy cancer. (B) Inflation has more make-ups than a beauty parlor! Each different form of inflation calls for a different hedge.

A real run of inflation is as devastating as an epidemic. Inflation, like certain plagues, is spread by "ticks"—these "ticks" are *lunatics* and *politics*. There is no known cure; but there is prevention. That is now a call to patriotism: To assure valid prosperity while there is yet time, to stop inflation before it is too late. Remember the Law of Action and Reaction; as somebody recently expressed this law: We are ever planting the future and harvesting the past.

Not Worth a Continental

THE need for some stable medium of exchange was growing urgent as the colonies expanded in population and wealth. There was neither gold nor silver mined on this continent. Specie or hard money had to be brought over chiefly from Europe but that meant borrowing or selling goods abroad. In the absence of gold and silver, the colonists in their inventiveness resorted to a simple device of issuing bills or promises to pay which were made to serve as currency. This was a seductive idea then as it is today in some quarters. It required no backing but merely an act or fiat of some authority. Individual colonies and the Continental Congress issued great quantities of irredeemable paper notes. This practice soon flooded the country with depreciated paper money. For example, in Massachusetts so much of it was issued that by 1745 the silver dollar was worth $11 in paper currency. Continental notes so depreciated that in 1781 they were quoted at 225 to 1 in coin. After the adoption of the constitution they were made redeemable at the rate of one cent to the dollar.

Pennsylvania was among the last to adopt this expedient. In 1722 it obtained consent from Governor Keith to issue paper money, and after that there was no end to it. By 1783 its volume of irredeemable paper money reached $4,325,000, "a sum simply ruinous to all values" as it was described at the time. Benjamin Franklin, who at first favored paper currency, soon became alarmed and issued a timely warning against the manufacture of money with its appalling depreciation. In 1786 Robert Morris, in debating in favor of the application for the repeal of the Act of the Pennsylvania Legislature annulling the state charter of the Bank of North America, said "you can outride in twenty-four hours the credit of any other bank in the country."

A DOLLAR-COATED DOG

THE craze for printing paper money continued unabated. Bills were printed and lent to individuals on the security of land and commodities. They were issued directly by the public authority and by private organizations on the slimmest basis of specie. Protests and prohibition were of little avail. Speculators as well as well intentioned citizens clamored for more paper money. Even the farmers joined them, though in their native shrewdness they often refused to accept these notes in payment for their produce. There was not even a semblance of stability but only continued depreciation reaching fantastic proportions and becoming the object of popular derision. A story is told of a facetious fellow who in 1781 plastered his dog with dollar bills and led the poor beast through the streets of Philadelphia to the amusement of the spectators, many of whom were originally among those who cried for more paper money. The echo of those days still reverberates in the well known phrase "not worth a continental."—From a recent address by JOHN S. SINCLAIR, President, Federal Reserve Bank of Philadelphia.

What Are "Other Loans" Made Of?

By E. H. COLLINS

ALMOST unnoticed except by those whose preoccupation it is to follow such matters closely, changes that must be regarded as fundamental took place in the portfolio position of American banks during the year 1936. One of these was the termination, on July 1, of the long upward movement in member bank holdings of Government securities; a second was the rise in holdings of "other investments" by approximately a corresponding amount; a third (and the most important) was the sudden return to activity and prominence of the item, "other loans", which turned definitely upward at the end of February and which between that time and the end of the year rose by slightly more than $1,000,000,000.

If one looks at the liability side of the weekly member bank statement for the last several months one will find that demand deposits have continued their steady rise. They rose, roughly, from $13,600,000,000 in mid-April to $15,600,000,000 at the end of the year, or about $2,000,000,000. But, turning to the asset side, we find that the combination of circumstances which made for this further rise had, by the end of the year, undergone a sweeping change. Up to February expanding deposits were attributable to a combination of gold imports and purchases of Government paper. From February on, "other loans" began to slip into the picture, and by July 1 Government paper had begun to slip out. By the end of the year, therefore, the principal factors in the expansion of deposits were no longer gold and governments; they were gold, on the one hand, and other loans and other investments, on the other.

THEY ARE CHIEFLY MADE OF FOUR THINGS

FROM a purely banking standpoint this shift in the investment portfolio does not begin to rank in importance with the sudden and impressive expansion in what the member bank statement refers to as "other loans". That is a major change, ranking with such other fundamental recovery phenomena, for example, as the revival of producers' goods, or the emergence of the railroads from the "red" into the black.

Now, when we refer to the item "other loans" in the bank statement what do we have in mind? Up to September 5, 1934, this item included a wide range of assets. It included, in fact, every kind of loan except loans on securities. But with the statement of September 5, 1934, the Federal Reserve Board undertook to break this very general item into a number of subsidiary items. As a result of this operation, we now have four items in the bank statement where we previously had but one. "Acceptances and commercial paper bought in the open market" are now shown separately; so are "loans to banks"; so are "real estate loans". Today, "other loans" is the residuary item after these three other items have been deducted.

If there could be said to be such a thing as a "typical" large bank, then its "other loans" would fall roughly, perhaps, into about four major categories. The first of these would be merchandise loans such as are made for the purpose of warehousing or moving goods or commodities. A second would be domestic discounts. A third would be personal loans. A fourth would be instalment loans. In addition, there would fall under this general head, loans to branches, suspense items, and special credits of one kind or another, domestic and foreign.

The first two of these categories are generally the most important, and it is largely the rise in these classifications that has swelled the total of "other loans" in the course of the last few months. Domestic discounts, in particular, include several important items that might well be classified separately. Under it would come unsecured business loans—the type of commercial paper that a few years ago represented the backbone of American commercial banking. It would also include corporation notes. Finally, the sale of "Federal funds" falls into this category.

WHY "OTHER LOANS" RECOVERED SLOWLY

WHY, it may well be asked, did it take nearly three years of business recovery before this important source of bank earnings, "other loans", began to feel the stimulus of that recovery? Well, in the first place, corporations were in a strong cash position when the depression came, thanks to the fact that they had previously built up reserves through the medium of large stock issues. In the second place, the prodigious expansion of bank deposits through Government financing provided them with sufficient funds for their comparatively meager needs. In the third place, the failure of the "other loan" item to expand was in part an illusion. There was some lending of the sort, but it was offset by the repayment of loans.

That the picture has been suddenly and completely changed in recent months is attributable to several factors. The first of these is that the pressure of low money rates has sent many corporations to the banks for short term loans, whereas at other times they might choose other methods of raising funds. A second consideration has been the increased use of consumer credit. This would affect both personal loans (such as F.H.A. loans) and instalment paper. (It has been estimated that instalment buying is already larger than it was in 1929). A third element—and one which accounts particularly for the year-end jump in "other loans"—has been the excess profits tax of 1936. It is no secret that numerous corporations actually borrowed money with which to pay dividends, because it was found cheaper to do this than to withhold earnings from their stockholders.

But more important than any, or perhaps all, of these considerations has been the recovery itself. Rising commodity prices, on the one hand, have meant that more credit is required to carry a given inventory; on the other hand, larger inventories are being carried, as in the case of the textile mills, which have ordered raw materials well ahead of their immediate requirements. Finally, the rate of business activity has reached the point where, in spite of Government spending, sufficient credit is not being made available for business through indirect channels. In other words, the rise in "other loans" is clear-cut evidence that business recovery has definitely reached a new and deeper stratum than it had a year ago.

Inflation-Proofing Is Hard

By WALTER E. SPAHR
Professor of Economics, New York University

EACH institution, like each individual, must consider the nature of its assets and liabilities, and see to it that no contracts are entered into that will not liquidate themselves without loss when they mature. . . . The real test is what happens when loans and investments become payable.

THE question has been raised as to whether there is such a thing as an inflation-proof investment program for banks and other investors.

What is this inflation against which banks and others desire to build an appropriate investment portfolio? It is probably accurate to say that most writers on the subject appear to think of inflation in terms of a rising price level. But such a concept of inflation is untenable. It should be obvious that, if inflation always means a rising price level, then we could not have had inflation in this country from 1923 to 1929 when the price level trend was fairly steady to slightly downward. The fact of course is that underlying that price level there was a tremendous amount of inflation. The deflation following 1929 is proof of the fact.

A CRITERION OF INFLATION

AT the outset, therefore, we must take a realistic view of inflation. Most people doubtless would agree that inflation is a bad thing, but usually they are not specific as to how or why it is bad. To be specific, inflation is a bad thing because it leads to losses. An inflationary procedure, which may take many forms, should not be confused with inflation as a fact—that is, the extent of the losses resulting from the inflationary procedure. People who can profit by and escape the unpleasant effects of an inflationary procedure often advocate the procedure. No one, apparently, desires to experience the losses that may result and must be borne by some one. It is the procedure that so many people like, for the reason that they hope to have the foresight or sufficient luck to escape the ultimate consequences.

Therefore, an inflationary procedure is one thing; the fact of inflation, measured by the losses directly attributable to the preceding inflationary procedure, is something else. *Any extension of purchasing power, whether in the form of money or credit, that results in a condition in which the purchasing power is not secured by reserves or commodities sufficient to liquidate it in full is an inflationary procedure.* The real test of the fact of inflation, as distinguished from the preceding inflationary procedure, arises when a debt matures and cannot be paid. The extent to which the debt cannot be repaid is obviously a measure of the excess of purchasing power previously extended to the debtor.

MANY FACTORS MUST BE CONSIDERED

IT should be clear, therefore, that when we consider the matter of institutions or individuals protecting themselves against inflation—and this means the losses resulting from becoming parties to an inflationary procedure—we must recognize that we are dealing with a multitude of individuals having contracts of various kinds; with a variety of institutions having, often of necessity, numerous contracts involving various kinds of assets and liabilities with varying maturities; with certain classes of people, such as wage earners, who have only personal services for sale and who can invest in nothing to protect their meagre purchasing power; with some types of inflationary processes which grow out of individual contracts, such as the loan of a bank or individual to a borrower; and with that type of inflationary procedure found in government issues of fiat money or the creation of note and deposit currency against government securities which cannot be liquidated except in the distant future, if at all.

What is one to say, therefore, in answer to the question as to whether there is such a thing as an inflation-proof investment program for banks and other investors? The answer is, "Yes and no." And to be specific about this matter, one must know the variety of inflationary procedure and the nature of the institution or individual involved. Each institution, like each individual, must consider the nature of its assets and liabilities, and see to it that no contracts are entered into that will not liquidate themselves without loss when they mature. This may sound obvious and trite, but it is not. It is the essence of the matter and the answer to the question. Banks make loans to a variety of individuals, and whether inflation creeps into these loans depends upon how carefully the lender scrutinizes each individual loan and protects himself against possible losses when the loan matures. This is equally true regarding investments. The real test is what happens when loans and investments become payable.

WATCH FOR SYMPTOMS AS THEY ARISE

THE necessity of following an analysis concerned with individual transactions becomes even more obvious as one passes from one type of institution to another. Some institutions have fixed contractual liabilities (other than proprietary claims) and assets that may fluctuate widely in value. Other institutions have liabilities that fluctuate widely with assets that do not keep pace. Still other institutions, perhaps most, have fluctuating assets and liabilities that may or may not move together. Some institutions are by law required to invest their receipts in securities of a certain type and, as a consequence, are often helpless when an inflationary procedure becomes general and pronounced.

The key to the question as to how to protect oneself against inflation is found in analyzing the various inflationary procedures as they arise, and, in each individual transaction involving a future payment, seeing to it that reserves and collateral or commodities are sufficient to liquidate it when it matures—not just when the contract is made—without any doubt whatsoever.

Local Loans in Small Banks

THE small bank's problem of making local loans is somewhat different from the problem facing banks in the larger centers, because the former usually do not have the true type of commercial loan available to them. In order to point this out more clearly, the actual analysis of a note case for a smaller bank is shown in the two tables below.

They reveal that 80.92 per cent of the total number of loan lines accounted for only 23.11 per cent of the money, and that over 50 per cent of the money was concentrated into 5.34 per cent of the number.

Of the total loans of $68,848.43, the sum of $40,161.85 was secured and $28,686.58 was unsecured. The total amount which these borrowers had on deposit with the bank was $22,393.24 in the commercial department and $14,361.42 in the savings department. While, in the total, this represents a very satisfactory ratio of 53.38 per cent, a breakdown of the individual lines reveals an entirely different picture.

As will be seen from Table II there were 59 loan lines which carried no account whatsoever in the bank; 3 of these lines were over $500 and 56 were under $500. Of the 72 lines which carried an account either in the savings or commercial department 20 of the accounts were savings accounts of less than $5 each. While these actually were not worth considering as accounts, because the names appear among the depositors they are listed as "carrying accounts."

SOME TYPICAL CASES

OF the 56 lines under $500 which carried no account of any kind with the bank, some had been renewed many times, one note of $45 having been made for 60 days and renewed 19 times. True, the interest had been paid each time but actually this note was a loss to the bank every time it was renewed, as the physical cost (exclusive of lending officer's time or any time spent on collections, etc.) was 91 cents. Therefore in this particular case the bank was receiving interest at 6 per cent on $45, or the sum of $2.70 per year. The cost of running the note through the books 6 times a year at 91 cents was $5.46. In other words, the interest which the bank received failed to equal the cost of recording the note by $2.76 per year, without considering any time of the officer who made the loan, discussions on the renewal of the loan, arguments, phone calls, etc., etc., etc.

There is not much difficulty for any bank to ascertain just the condition which exists in its own note case. It can take an adding machine tape run of the notes, then divide them into the various classifications, as shown below, or with any further breakdown that is desired. Starting with the large loans will save time in making this analysis as it is easier to count than to run machine lists. The number and amount in the smallest classification will be the remainder after deducting the sum of the other classifications from the totals.

In order, however, to ascertain the borrowers who carry or do not carry accounts with the bank it is necessary to use a columnar sheet. This sheet would be headed as follows: *Name, Secured Amount, Unsecured Amount, Commercial Amount, Savings Amount.* Under *Name* would be listed the name of the borrower with his total loan line shown under *Secured* or *Unsecured*, as the case might be, endorsed notes or two-name paper being considered unsecured. This is an analysis of loan lines and not of notes — if one borrower has ten notes it is still one loan line.

THE FINAL PROCEDURE

AFTER the note teller has listed all the loan lines, the sheet then goes to the commercial bookkeepers, who list the balances shown on their books at the same date. This procedure is repeated by the savings bookkeepers.

All the necessary information is then contained on this sheet. Through the use of this information many banks have succeeded in obtaining deposits from these borrowers. The number of times notes have been renewed can only be obtained from the liability ledger. Making a thorough analysis of the note case in this way reveals many startling facts that are unknown until after such an analysis has been made.

The only solution to these problems of local loans in the smaller banks would seem to be the instalment basis of repayment and the recognition that in such banks the small loans predominate. It is also true that with these smaller loans the instalment basis of repayment proves most satisfactory from both the bank's and the borrower's standpoints. By using this method, loans become self-liquidating and the cost of recording is reduced.

Also the danger of losses is minimized. For instance, in the particular bank whose figures are used to illustrate this article, anything going wrong with one of seven lines over $2,500 would cause much greater loss than would be involved in 7 loans in the smaller classifications.

Renewing notes over 30 days, even where a payment of principal is insisted upon, is not as satisfactory as the personal loan principle which calls for definite payments every 30 days and which does not necessitate a new note.

TABLE I

Class	*No.*	*Percentage*	*Amount*	*Percentage*	*Average*
Under $100	42	32.06%	$ 2,278.50	3.31%	$ 54.25
$100 to $500	64	48.86%	13,633.94	19.80%	213.03
$500 to $2500	18	13.74%	18,028.72	26.19%	1,013.26
Over $2500	7	5.34%	34,907.27	50.70%	4,896.75
Totals	131	100.00%	$68,848.43	100.00%	$ 525.56

TABLE II

Class	*Not Carrying Accounts* *No.*	*Amount*	*Carrying Accounts* *No.*	*Amount*
Under $100	30	$ 1,715.00	12	$ 563.50
$100 to $500	26	5,145.70	38	8,488.24
$500 to $2500	2	2,396.40	16	15,632.32
Over $2500	1	3,200.00	6	31,707.27
Totals	59	$12,457.10	72	$56,391.33

Small Trusts Make Big Problems

Discussed by E. S. WOOLLEY

THE problem of the small trust department is stupendous—so much so that in many cases it would seem that the best thing to do would be to surrender the trust powers. The difficulty with all trust departments today is that they are obliged to accept many trusts which cannot, by any stretch of imagination, be profitable. In the case of the larger trust departments this unprofitable business can be absorbed because the bank has enough large trusts that the department as a whole is profitable.

In the case of the smaller trust departments, however, it would appear that only in exceptional cases are they able to procure trusts of sufficient size to accomplish this. It seems inevitable that this condition will always continue because of the fact that those with large trust estates feel, either rightly or wrongly, that it will be better administered in one of the larger centers.

Everyone knows of instances of wealthy men who are actually presidents of banks having trust departments in communities of 10,000 to 25,000 taking their personal trust business to the nearest large center. This is also true with many directors. Cases like this exist throughout the country. If an institution is unable to imbue its own directors with its qualifications for handling individual trusts, how is it to be expected that it can impress outsiders favorably? Probably this is one of the reasons that analyses of small trust departments throughout the country show conditions somewhat similar to those shown in the table below.

THIS ONE CAN'T MAKE MONEY

NOT all banks will have irrevocable agreements in which the principal or the interest or both are guaranteed, but there is a sufficient number of these in existence to make the particular one not such an outstanding exception. There is, of course, not a chance for this particular trust department ever to prove profitable. Even with its 35 trusteeships for corporate bond issues, the trust department still lost $2,980 for the particular year in question. For example, the 29 guardianships with a total corpus of $14,500 do not stand the slightest chance of ever being anything but an expense to the bank. One of the guardianships is actually for $1.61—absurd as it may seem.

Just as an illustration of how little income small trusts can produce, even on the liberal basis of allowing 5 per cent earnings on the corpus and trust fees of 5 per cent of those earnings, a $1,000 trust would earn for the bank the magnificent amount of $2.50 a year. In other words, the 9 trusts with an irrevocable agreement would bring the bank $42.75 per year in earnings. The 13 trusteeships with revocable agreement would only pay the bank total fees of $104 per year. Certainly a cost analysis is not needed to arrive at the conclusion that there is no chance for the bank to perform the required services on these 22 trusts for $146.75 per year. Actually of course the bank did not receive that much income for the reason that the principal was not invested to yield 5 per cent yield on the average. The same results would be shown by analyzing every one of the various classifications, with the possible exception of the 35 trusteeships under the bond issue. The only possible way in which this bank can avoid losses would be to liquidate the department as rapidly as possible and surrender its trust powers.

The losses of small trust departments are not confined to operating losses. A bank may consider that it would have most of the expenses anyway, and that therefore the operating losses of the trust department are purely theoretical. Even if this were true, many banks have been forced by examining authorities to substitute good assets of the bank for depreciated assets of the trust department, thereby causing serious loss to the bank itself. There is always a possibility of this condition arising and therefore it must be taken into consideration when deciding if the trust department is of sufficient value to the bank to warrant its continuance. It will be remembered that trust departments came into banks largely because of the competitive spirit between national and state chartered institutions and not because the idea of merging banking and trusts was fundamentally desirable.

A recent speech digested in BANKING showed that only ⅓ of 1 per cent of the population of the United States reported income tax returns of over $5,000. Since trust business is primarily one which appeals to the larger income classes, it will be seen that the prospects for trust departments are very small in relation to the population as a whole. It is impossible to build without the material to build with. Any business which has for prospects only ⅓ of 1 per cent of the population, or one person in every 300, does not offer much chance for volume business. Even this one in 300 is not a true index for the small community because the majority of the 362,000 prospects for trusts are located in the larger centers.

	NUMBER OF ACCOUNTS			
CAPACITY	PRIVATE	COURT	CORPORATE	CORPUS
Administrator		5		$ 24,251.25
Committee		5		25,541.38
Escrow	10			155,017.00
Executor		4		44,505.51
Guardian		29		14,501.97
Special receiver		7		27,428.12
Trustee—Bond issue			35	
Trustee—Irrevocable agreement	9			17,095.83
Trustee—Revocable agreement	13			41,711.60
Trustee—Irrevocable agreement Principal guaranteed Interest guaranteed	11			20,350.00
Trustee—Irrevocable agreement Principal guaranteed Interest not guaranteed	1			1,000.00
Trustee—Irrevocable agreement Principal not guaranteed Interest guaranteed	4			11,701.65
Trustee—Will		16		84,649.61
	48	66	35	$467,753.92

How England Cut Excess Reserves

By NORMAN CRUMP
Banking Editor, *The Economist*, London

London

THE action of the United States Administration toward altering the method of operating the American exchange stabilization fund, so as to enable future gold purchases to be financed by the sale of Treasury bills, evoked considerable interest in England. It is believed that the changes make the operations of the American fund much more like those of the British Exchange Equalization Account. We have already had four years' experience of our own exchange account, during which we have come to realize that it is really an elastic link between our internal monetary and banking system and international movements of funds. Originally we regarded it solely as an instrument for smoothing out foreign exchange fluctuations and discouraging speculation; and it bought and sold gold or sterling accordingly. We now realize that these purchases exercise some influence upon the internal credit position and so we have been developing it as an integral part of our monetary and banking machine. The United States is taking the first step in the same direction.

SUCH FUNDS MUST BUY AND SELL

THE essential point is that an exchange fund must be able to act both as buyer and seller, that is, it must be provided both with gold and with the home currency (e.g., sterling for England and dollars for the United States). The British exchange fund initially consisted wholly of sterling, in the form of Treasury bills issued specially against it, and it was only able to stock itself with gold as well because its foundation coincided with a sustained flow of foreign funds into London. Thus it has been able to act both as buyer and seller at will.

The American exchange fund was originally stocked only with gold, arising from the revaluation of the nation's monetary gold stocks in early 1934. It was never able to acquire a stock of dollars, because ever since 1934 funds have been flowing into the United States, so that the fund was continually asked to buy gold and never asked to buy dollars. It had the fatal defect of being able to operate only one way, and the undesired way, at that. The result was that as it took up gold, it had to pass it on to the Reserve banks (in the form of gold certificates), for the Reserve banks alone had dollars with which to pay for the gold. Hence the gold got through to the American internal banking system, where it was responsible for the swollen member bank excess reserves, and from the psychological aspect, for the misgivings about foreign hot money.

The only possible assumption is that the recent changes are designed to provide the American stabilization fund with an adequate supply of dollars, so that it can operate freely in both directions. Judging from our own experience, there are two possible initial courses of action. First a new issue of Treasury bills might be made direct to the fund. Then, in future as the fund buys gold it will sell its bills to the banking system, receiving in return dollars with which to pay for its gold. This is tantamount to giving the fund power to borrow at short term from the banking system whenever it wishes to buy gold.

Let us trace briefly the consequences of an influx of foreign money covered by gold bought by the stabilization fund in this way. The foreign money will go into a member bank, and raise its deposits by, say, $x millions. The member bank will acquire $x millions of gold abroad, in London or in Paris, and resell it to the stabilization fund. Meanwhile the stabilization fund will sell $x millions of Treasury bills to some member bank and use the dollars received by it to pay for the gold. Therefore the member banks as a whole will pay out $x millions in cash for Treasury bills and receive it back for their gold. The net change in the condition of the member banks will be:—

Deposits	$x millions
Securities	$x millions
Reserves (i.e., cash)	unchanged
Excess reserves	reduced

Their excess reserves are reduced because they are carrying larger deposits and so need larger legal reserves.

Here is a way in which the stabilization fund can be used as an instrument for *reducing* member bank excess reserves. We had the counterpart to this in London in the Summer of 1936, when the joint-stock banks' cash became seriously reduced in just the same way by the French influx of funds into London, and the British exchange account's gold purchases in Paris and sales of treasury bills to the joint-stock banks. The banks got new deposits, but only got treasury bills as the counterpart; and when the French began to hoard British currency, the British banks found themselves losing cash and only getting treasury bills in exchange.

To relieve the pressure, the Bank of England itself had to buy gold last Summer. Similarly, the American stabilization fund could sell part of its $x millions of Treasury bills to the Reserve banks instead of to the member banks. In that event the member banks would receive more cash for gold than they paid out for Treasury bills, and so would gain cash on balance.

NEW CONTROLS ARE POSSIBLE

BY adjusting the stabilization fund's sales of bills (a) to the member banks and (b) to the Reserve banks, a very delicate control over excess reserves could be exercised whenever foreign funds and gold came in. So far from foreign hot money raising a new problem, it could be used as a delicate control lever over the internal banking position.

The second way of providing the stabilization fund with its initial stock of Treasury bills would be for the Reserve banks and the stabilization fund to swap short term Governments for gold (or gold certificates). This is the real significance of the Bank of England's £65 millions gold purchase and the £60 millions reduction in the fiduciary note issue last December—it was a straight swap of gold for treasury bills with the British Exchange Equalization Account.

The change in method not only enables the stabilization fund to operate both ways on the foreign exchanges, but also transforms it into an important control lever over the internal banking position.

Freezing the Cat

By THOMAS H. REED

Director, Consultant Service, National Municipal League

GOOD Father Adam for his sins, we are told, was obliged to earn his bread by the sweat of his brow. It is less widely known that he sweat so much that he grew thin and irritable. So Eve made her second great suggestion, "Work less." He did and, tradition has it, they *both* grew thin and irritable.

The taxpaying public of the United States, descended from Father Adam, found itself in a similar plight and flew to a similar remedy. In the early years of the depression it was hard to pay the heavy state and local taxes on real property—and some male descendant of Eve suggested, "Why not put into the state constitution a provision that taxes on property for all purposes shall not exceed a certain proportion (1, 1½ or 2 per cent) of its assessed valuation." The notion swept the country like a Broadway song hit—it was just what every taxpayer wanted to hear. Almost before we knew it seven states had adopted it and all the rest trembled on the verge.

THE REASONS SEEM GOOD ENOUGH

THE arguments for tax limitation were simple and appealing: (1) Local government costs too much; (2) real property pays more than a fair share; (3) tax reform can be forced by drastic limitation of the property tax. Small home owners went to bed nights and dreamed of lower taxes. The farmer plodded the furrow with a straighter back. And less sentimental but practical real estate and utility interests steadily and skillfully fanned the flame. Even some bankers, thinking of protecting their investments, gave the movement their blessing because they thought that, if taxes for operation were reduced, there would be less opposition to paying taxes for the service of preexisting debts which, of course, are outside the overall limits under the Fourteenth Amendment to the United States Constitution.

BUT THEY DON'T HOLD WATER

IT did not take long, however, to expose the speciousness of the case for overall tax limitation. The portion of the limited tax which could be allocated to cities did not suffice to provide the services necessary in urban communities. From West Virginia where city government has been able to drag out a feeble existence for the past four years only because there were delinquent taxes from the early depression years to be collected, spoke on December 18, 1936, the Editor of the *Dominion News* of Morgantown.

> ". . . the average per capita expenditure for municipal government under tax limitation in West Virginia is less than half the national average. Small wonder that streets are going to ruin, street lights are dark, poorly paid policemen must work seven days a week without let-up, that sewers are clogged and sanitation work at or near standstill.
>
> "The situation is such that the council of the state's largest city—Huntington—recently ordered a wholesale suspension of municipal activity. Many another city has curtailed until municipal service is definitely below the line of actual need."

Reducing taxation but ruining the city is the most reckless kind of extravagance. For it is the city and its services which give the taxpayers' property its value. The tax limitationists are much in the position of the eccentric gentleman who decided to dispose of a superfluous cat by sitting out on the front steps on a cold night, clad in a night shirt, and freezing the animal.

GOVERNMENT COSTS HAVE BEEN CUT

LOCAL government costs, generally too high in 1933, are not generally too high today. Where drastic tax limits prevail, they are now generally too low. According to an unpublished memorandum prepared for the New York State Commission for the Revision of the Tax Laws, Flint, Michigan, in 1930 was a lavishly operated city. The tax levy for city purposes, however, had been reduced, without the aid of tax limitation, from \$3,335,000 in 1930 to \$2,233,000 in 1933. In 1934 the people voted to submit their city to the full effect of the 1.5 per cent overall limit of the Michigan constitution. The tax levy for city purposes actually had risen in 1936, the third year of tax limitation, to \$2,674,000, while the total levy for all purposes remained practically as in 1933, except for the abolition of the state tax on property.

This year's budget was balanced by estimating receipts of more than \$500,000 which the city probably will never get. On December 1, 1936, there was little or no cash in the general fund and accounts payable amounted to \$500,000. At the same time the school budget was balanced by overestimating state aid approximately \$300,000. There is not sufficient money in either city or school budget to restore salaries, replace equipment or make needed improvements. At that, Flint is going in the hole at the rate of nearly a million dollars a year.

This experience is substantially duplicated in other Michigan and Ohio cities.

HOW SALES TAXES WORK

BUT there is still another aspect to the high price of tax relief by overall limitation. Several states, when the property tax well was plugged, found another in the retail sales tax. This tax may have its place in a balanced scheme of taxation but by itself must be condemned as regressive. That is, it "soaks" the poor. In Ohio it is estimated tax limitation saves the owner of a \$3,000 home about \$12 to \$15 a year. The average resident pays \$20 to \$40 yearly under the 3 per cent sales tax.

It requires only the simplest reasoning to see that the small taxpayer has benefited not at all by swapping part of his property tax for a sales tax. The fact that it is large property owners who really benefited by the exchange is arousing increasing comment among the rank and file of Ohio's population.

If anyone thinks it would be wise to come in off the steps or put on an overcoat before the cat freezes us, he will be comforted by the fact that last November the people of Colorado, Oregon and Georgia voted down tax limitation, while only Nevada adopted it. It will take some real effort, however, to stamp out all traces of the epidemic which will flare up again this year when 46 state legislatures meet.

This Mechanized Farm Age

By R. K. O'HARA

Vice-president, First National Bank, Chicago

THE business of the agricultural machinery manufacturers is closely related to the trends in agriculture, and it is logical to expect the fortunes of the former to follow very closely the cyclical swings which are such a common characteristic of the agricultural industry. It was inevitable, therefore, that the implement manufacturers would be adversely affected as the farmer's income declined so precipitously in the depression years following 1929.

The implement industry, which embraces four distinct lines, tillage, harvesting, power, and dairy equipment, has spent large sums in developing new products, particularly the small row-crop tractor, either gasoline or kerosene-distillate powered, and the small combine, both of which have been placed on the market within the last four years. The small tractor has brought to row-crop farmers with acreages of 120 or less the same advantages of mechanical power as were made available to larger acreages 13 years ago when the first row-crop tractors were built. Row-crop tractors, more commonly known as all-purpose tractors, made the horseless farm possible for the first time, for they are adapted to every field and belt operation on the row-crop farm. Earlier tractors would do the heavy field work, such as plowing, disking, harvesting, etc., and would furnish belt power for stationary jobs, but they were not suited to such jobs as planting, cultivating, mowing and raking.

DIESEL POWER IS WIDELY USED

ANOTHER recent development by farm equipment manufacturers has been the adaptation of Diesel power to tractors used in the larger farm and industrial operations where the heavy loads and size of jobs make the larger initial investment in a Diesel tractor practical by reason of lower fuel costs. Diesel tractors have become steadily more popular on farms for such jobs as pulling heavy combines along the steep hillsides of grain-growing Washington and Oregon, pulling plows, harrows and sprayers through the unstable sandy soil of California orchards, and for similarly heavy work in other sections.

Reflecting the improvement in the position of the farmer, sales of agricultural machinery have shown substantial recovery in the last four years. Trade estimates place the value of total farm equipment production at $450,000,000 in 1936, despite the effects of the drought in the Summer months, which curtailed sales in some sections of the country, especially the Northwest. This figure would be a 35 per cent increase over the Bureau of Census estimate of $333,332,070 for 1935, which in turn was an 85 per cent increase over the $180,000,000 estimate for 1934. If the 1936 estimate is realized, it will be 3.9 times the 1932 estimated figure of $116,000,000 and will be 74 per cent of the peak year 1929 when the value of farm equipment production reached $606,622,000. Obviously, the farm implement industry has had substantial improvement from the depression low and is approaching its pre-depression levels.

Betterment in the export demand, which normally accounts for about 20 per cent of the total business, has accompanied the improvement in the domestic market. In the first 10 months of 1936, exports of farm machinery rose 34.3 per cent to $37,095,402, as against $27,620,011 in the same period of 1935. The most recent 10 months' figure, and for that matter the first nine months' figure, was greater than the $32,040,325 reported for the full year of 1935. However, through the years 1923–1930, exports averaged $92,239,000. More favorable foreign exchange rates, generally satisfactory tariff agreements, and improved conditions in many foreign countries are responsible for the improvement in exports in recent years.

SEVEN FAVORABLE FACTORS

BECAUSE of the unpredictable factors such as crop and weather conditions, insects and developments having to do with labor, and the serious consequences which can result from any of these, it is extremely hazardous to forecast the long term outlook for the agricultural machinery manufacturers.

However, disregarding the above unpredictable factors, it is believed that the prospects over the next several years are favorable for the following reasons:

1. Higher farmer income in 1936 should result in increased purchases of farm machinery in the Spring of 1937. The continuance of higher commodity prices is in prospect, thus aiding the sales of machinery and the collection of receivables.
2. The Government's plan of refinancing the farm mortgages and relief for farmers has eased the farmer's debt burden considerably and continuance of extensive governmental aid is probably assured.
3. Higher commodity prices tend to increase the acreage planted, which in turn stimulates the sale of farm machinery.
4. Improved conditions in foreign countries and the reciprocal trade agreements should stimulate the export demand for implements.
5. Because of the dearth of equipment purchases during the depression, a large potential demand now exists which will be filled as the farmer's condition continues to improve.
6. The development of new products, such as the row-crop tractor, the small combine, the Diesel tractors, and the improvement of old products, has materially widened the consumer market.
7. Through conservative accounting policies and the maintenance of adequate reserves, the implement manufacturers have materially improved their financial condition and are in a favorable position to participate in the further expected recovery.

The bright prospects for the future of the agricultural machinery industry are especially gratifying when viewed in contrast to conditions which existed as recently as 1932 and 1933. From the banker's standpoint, the creditable progress made in the industry in recent years is attributable to a large degree to able and aggressive management. Like all credits, the element of management is foremost in the banker's mind and, given good management, credits to manufacturers of agricultural implements are regarded by banks as safe and highly desirable investments.

Consumer Loans Rise

By GEORGE E. ANDERSON

THE opening weeks of 1937 find banks carrying approximately one and a quarter billion more in miscellaneous loans than at the corresponding period of 1936. Reporting Federal Reserve member banks alone registered an increase of more than $889,000,000 at the beginning of this year. No detailed information as to the nature of this credit is available, but bankers seem to agree that the gain is due mostly to two factors—increased borrowing by businesses which have finally used up the reserves that carried them through the depression, and the banks' larger share in instalment sales financing.

POSITION OF INSTALMENT FINANCING

THE latter development is in large part the result of a vigorous campaign carried on by some banks. It is accompanied by an increased volume of business by personal finance companies, instalment sales finance companies, credit unions, and all sorts of lending agencies. This in turn is reflected in expanded loans by the banks, since most of the lesser credit institutions base much of their business on bank loans.

Instalment sales financing is the largest quasi-banking activity in the United States. Retail merchant instalment sales during the past year have been estimated at approximately $5,000,000,000; presumably that has formed the basis for considerable borrowing from the commercial banks. How much of this volume overlaps business done by the instalment sales finance companies is problematical. A conservative estimate of the latters' business would seem to be around $3,500,000,000, and it may be much more. The chief business in this line, of course, is the financing of sales of automobiles. It is estimated that total new motor vehicle financing last year covered 3,000,000 cars at $550 each, or $1,650,000,000, while the financing of used cars covered 5,130,000 vehicles at the rate of $225 per car, or a total of $1,154,250,000—a grand aggregate of $2,804,250,000.

OTHER LEADING COMMODITIES

THE financing of mechanical refrigerators in the past year ran between $150,000,000 and $200,000,000 and is rapidly increasing. Much of this business has been done by commercial banks in connection with the F.H.A. home modernization and repair campaign. Another item in the latter is the financing of heating equipment. So important has this business become to some concerns that they have organized their own finance companies to handle it. The latest development has been the organization of sales finance companies to finance expensive commodity lines, especially furniture, on the principle of bank acceptances. Manufacturers of air conditioning equipment are doing a large percentage of their business by instalment financing, in many cases with their own companies organized for the purpose but in all cases with increasing recourse to banks.

Machinery and equipment for commercial houses and industrial concerns have come to be an important factor in instalment sales financing. Most of this business is done by the banks although some manufacturers have close connections with finance companies and some have organized their own financing concerns. In recent months electrical equipment has become an important factor and some of the largest banks are financing instalment sales in this field, usually under the guaranty of the utility company concerned.

At present the most important agencies in this variety of financing are the thousand-odd instalment sales finance companies, large and small, comprising the membership of the National Association of Sales Finance Companies. Some companies confine their operations entirely to automobile financing. Several hundred do not finance automobile sales. Many limit their service to financing merchants who extend credit. Most of them also finance other instalment sales and a few purchase instalment contracts for the financing of doctors' and dentists' bills, hospital charges and the like. Several finance insurance contracts.

COMPETITIVE, ALSO SUPPLEMENTARY

IN reviewing the several varieties of lending institutions now operating in this country an observer is at once struck by the fact that each class of institution so merges into the class above or below it that all form a coordinated whole rather closely knit in relation to each other and in their relations to the public. In some respects they become highly competitive while in others they offer mutual support and in large part depend upon each other. Many are becoming directly competitive with commercial banks, while some of the largest banks are handling instalment sales financing in competition with concerns solely devoted to such business, and are maintaining personal loan departments which compete directly with personal finance companies.

Facing such a situation the average banker may well ask himself: In what does a modern banking service really consist? It is quite evident that these manifold lending agencies would not exist if there were not a public demand for them and if they did not meet a public need. Faced on the one hand by a dormant demand for commercial and other loans, the commercial banker sees, on the other hand, a vast amount of business which is legitimate, profitable, and necessary for the public welfare. It may be easy enough for him to say that all such business is really not banking and that he will stick to his own line, were it not for the fact that the institutions which are supposed to pursue these special lines are entering his own field. He faces competition whether he wills it or not.

BROADER DEFINITION OF BANK SERVICE

IN such circumstances the increase in bank loans in lines not heretofore considered strict banking has been inevitable and probably is only at its beginning. The manner in which many progressive banks are turning to virtually every sort of money lending function represented by the entire gamut of lending agencies suggests a more modern and broader definition of a banking service—a service that meets every credit need of every class of people on terms and conditions demanded by their respective situations.

Status of Private Pension Plans

By J. STANLEY BROWN

COMPARATIVELY few commercial banks have as yet adopted what are commonly known as private pension plans. And the few with any experience whatsoever in this field are, as one result of the Social Security Act, frequently asked these questions: "Should we install a private retirement income plan?" "If so, should we attempt it under present conditions, or wait until the permanent status of the Federal Social Security Act becomes more clearly apparent?"

In thinking through on this matter, perhaps we can all agree on certain fundamentals. In the first place, we can probably concede the permanence of some sort of governmental compulsion in the matter of joint employer-employee liability for employee old-age security. After all is said and done, the Social Security Act was no more than congressional obedience to the will of an overwhelming majority of the American people.

THIS IS NOT A NEW LIABILITY

IF we accept the premise that the movement toward old-age security is a permanent movement, let us next attempt an interpretation of that premise. The present demand for old-age security is a demand that the business man formally recognize and incorporate into his books of account an added liability classification. That classification might well be designated "Due to employees, on account of accumulated old-age liability".

The fact of the matter is that this liability has always existed. The present insistence simply results from its being recognized. The demand is that the employer transfer this obligation from its previous status of a moral, rather intangible and easily ignored liability to the status of a normal, business, tangible liability, offset by tangible assets.

IS THE FEDERAL PLAN ENOUGH?

SO tomorrow's employer, whether he likes it or not, is going to be held responsible for the old-age security of faithful employees. If he accepts this liability cheerfully—and the majority will do so—the next question is: "Are the benefits granted under the Government plan sufficient?" Every employer must answer that question for himself in view of the facts. The pertinent facts are these:

1. Given *all* the "breaks", the largest pension that anyone, under any circumstances, can earn under the existing Government plan amounts to $85 per month.
2. Higher-salaried personnel contribute only on the first $3,000 of annual income. Regardless of an individual's ability to pay or of greater future need because of permanently established higher standards of living, the Government will accept contributions against only that first $3,000.

If the employer decides to supplement the meager benefits granted by governmental decree, he is then faced with a choice of two methods. He may fund a retirement income plan under trustee agreement; or he may continue as in the past, simply buying a pension for each employee as he reaches retirement age, or creating a special payroll for retirement employees.

There are several overwhelming arguments in favor of the funded plan. The funded pension plan permits an employer to add to the price of today's manufactured product the exact cost of all of today's personnel expense. It creates certain advantages in the matter of taxation. But the really persuasive argument is the same as that for accruals to meet any other cumulative liability. If we accrue reserves for the retirement of obsolete machinery and equipment, we ought to adopt the same practice for obsolete personnel.

Assuming the employer agrees that Government benefits should be supplemented by means of a funded retirement income plan, we still have the really debatable question before us: "Should we set up our plan now, or should we wait a while?"

DELAY MAY BE ADVISABLE

MY personal opinion is that the organization which at present has no private funded pension plan might better delay adoption of one. I take that position the minute I analyze the purpose behind any proposed private pension plan. That purpose is—must be—to supplement the Federal pension plan. The fact is that the future of the present Federal program is an unknown quantity, and therefore it cannot be satisfactorily supplemented.

If an employer considers the immediate installation of a private pension plan, he has to consider the probability (not mere possibility) that corporations having such plans will eventually be exempted from Federal old-age taxation altogether.

Apparently, governmental objection to the exemption of private plans has for its purpose the compulsory and permanent coverage of all workers now included in the act. Emphasis is on the word "permanent"; and, under the present law, justly so. If private plans were exempted, they say, Johnny Johnson could work 10 years for Magma Trust Company, resign and withdraw his contributions. After a month of high living, Johnny would sign up with the XYZ Company, work five years, resign again, and go on another spree with his withdrawals from the XYZ plan. At 65, Johnny would become a public charge, the same as if no Social Security Act had existed.

CONVERSION OF PRIVATE FUND UNITS

THE argument is well founded; but governmental agencies will someday agree that their present solution is not well founded. Surely any agency proposing to administer 26,000,000 individual ledger accounts ought not to shy from the trifling problem of transferring Magma Trust pension units into governmental pension units. It ought not to be any world-shaking problem to evaluate the pension credit earned under any private pension plan, and to convert those units into equal Federal units. And it certainly is possible to "pass a law" requiring an employee to convert private pension units into Government units whenever he shifts employment.

In summary, it is a fair statement that no one can yet predict the future status of the Government Social Security program. And until that status is determined, the status of private pension plans must remain something far less than satisfactory.

Pay as You Check

By A. PATTERSON FIRTH

**President, Firth Financial Advertising, Inc.
Philadelphia, Pennsylvania**

THE new "per-item-charge" checking idea is rapidly spreading over the country and bringing back to the banks thousands of small checking customers on a pay-as-you-go basis. This new service with no minimum balance requirements is being enthusiastically received by the man in the street and is bringing into the banks the very people who are logically small loan prospects.

But is this business really profitable? Won't it crowd out more substantial business? Can it be obtained in sufficient volume to make it worth bothering with? What about overdrafts? These, and many other questions have been asked so many times in recent months that the actual experiences of an average bank over a six-month period should be both interesting and instructive.

Let us consider and analyse the operation of the system by a district bank in a large city, with deposits around $2,000,000 and with two offices. Both offices of this bank are in lower class business sections of the city. The new service was introduced with the thought of serving the bank's own logical territory, increasing its popularity and, of course, earning greater profits. The bank had no aspirations in the way of national, state or even city-wide small checking business. It thought the service was likely to be popular and that sufficient volume could be obtained to make the venture worth while from every point of view.

THE INITIAL EXPENSE

THE bank devised a system for handling this type of account at minimum instalation and operating cost and at the same time corrected what it considered to be weaknesses in other plans. The service was first offered to the public on July 15, 1936.

The bank's initial investment for stationery and supplies for 1,000 accounts was approximately $300, and, apart from advertising, this has been the only expense because the system is being operated without extra help or additional equipment of any kind. The bank estimated that it could handle about 1,000 accounts before additional help would be necessary, but as this is written, the 1,000 mark has been passed without the work being too burdensome for the present staff of employees.

FIRST SIX WEEK'S EXPERIENCE

THE advertising outlay was about $1,100, all spent in the first four weeks, the principal amount being for newspaper space. After the first four weeks, all advertising was discontinued, so that the bank's total investment to date is $1,400.

In the first six weeks (from July 15) the bank opened 457 new accounts with an average balance of $61—much higher than was expected. At the end of that period it was opening an average of eight new accounts daily and has maintained this average despite the discontinuance of advertising. Average balances fluctuate from $60 mid-month to $45 at the end of a month.

The bank makes a charge of five cents for each check cashed and for each item deposited. Earnings were naturally small during the first few weeks, but early in December—four and one-half months after introduction of the service—the total revenue had offset the bank's total investment ($1,400), and is now averaging better than $100 weekly and increasing week by week as new accounts are opened.

Prior to the instalation of this new service, the bank had an analysis system in operation and made a monthly service charge of $1 on all accounts under $100 minimum balance. It was rather afraid that many of these "$1 a month" accounts would be transferred into "per item charge" accounts.

Its fears have proved groundless, for out of the 457 accounts opened in the first six weeks, only 10 or 15 were transferred from the $1 a month plan. In fact, more than 95 per cent of the accounts opened to date are for new customers.

Only 2 per cent of the accounts have been closed or have become inactive in a six-month period and practically all such accounts have paid for the initial cost of opening.

DEPOSITS ARE QUICKLY HANDLED

The bank has no more than average trouble with "N/S" and other returnable items—rather less, in fact, for only 1.7 per cent of all checks presented are returned unpaid.

Another question which received consideration prior to the instalation of the service was the possibility of lobby congestion. It was thought that these new customers might considerably increase the traffic in the lobby and lead to delay and the possible loss of more substantial customers.

This was one reason the bank decided to make a per-item charge for deposits rather than permit free deposits and make a charge only for checks paid. It wished to keep down the number of deposits made, and its wishes in this direction have been realized. On the first 750 accounts opened, the deposits average only 45 daily or 1½ deposits per account per month. Of these, 98 per cent are comparatively small cash deposits which are quickly and easily handled.

Regarding checks paid, less than 1 per cent are cashed over the counter. In brief, the bank's revenue is derived principally from commissions on checks paid and better than 99 per cent of these are transit or clearing items.

NO DISTINCTION MADE BETWEEN CUSTOMERS

WITH the intention of making no distinction in the eyes of the public between these small checking customers and other patrons of the bank, and with a view to conserving time, the system was planned so that any teller could accept deposits and pay checks. Likewise, the special check forms used were made to conform as nearly as possible with the bank's regular check forms, and still be instantly recognizable.

Such, then, is this bank's experience with "pay-as-you-go" checking accounts. During the six month period all the anticipated mountains have become mole-hills. A reasonably high type of customer has been attracted and encouraged to use the bank's other facilities, and quite a few are now taking advantage of the personal loan and other available services.

Finger Tip Information Files

By R. E. DOAN
Director of Public Relations,
Denver National Bank, Denver, Colorado

TODAY we bankers are living in a fast-moving, ever-changing world. Whether we are a part of a small-town bank with but a few employees, or part of a big-city bank with thousands of employees, the fact remains that we must have the latest correct data on countless subjects at our fingertips.

One possibility of keeping up to date and having all needed data at our fingertips would be for each officer and department head to receive, read and personally keep a copy of every bank and business magazine, every worthwhile report, booklet, pamphlet or newspaper item. However, this is not practical. The expense of such duplication would be prohibitive, and no officer or department manager could be expected to keep an individual file of all such material. Consequently, the work must be centralized.

There are two major parts to this job if it is to be done right in any bank. The first, of course, is to make sure that new information will be brought, immediately upon its receipt, to the attention of those concerned. The second, and equally important, phase is the maintenance of an efficient banking and general business reference file—to keep all important data at your fingertips for future reference.

MAGAZINES, NEWSPAPERS, PAMPHLETS

FOR the first objective, all magazines, newspapers, business reports, informative booklets, pamphlets, etc., which reach our bank come directly to our reference department. Here they are routed out to the various officers and department managers who may be directly or indirectly interested in the subject matter covered. The "routing out" process is, of course, a simple matter in the case of various reports, booklets and pamphlets where only one subject is covered. We merely determine the contents, mark the names of those interested on a routing slip, and have the mailboy take them around to those so designated. However, in the case of newspapers and magazines a special technique must be employed. Immediately upon receipt of a magazine, we cut off the binding—leaving free pages. We then select the various articles of interest, use a stapling machine to hold the pages together, attach a "routing slip" with the names of those who should see it, and send it around. As will be readily realized, in many cases it is necessary for us to have two copies of the same publication.

In clipping and routing out newspaper items and short magazine items, we utilize a "clipping sheet." This is a legal size paper with a mimeographed heading which contains a place for the name of the publication and the date, and the routing numbers of officers and department heads.

This, in as few words as possible, outlines our method of immediate distribution of all informative material. Each item is, of course, returned to the reference department as soon as it has gone the rounds of those to whom it was routed. Naturally, many articles, reports and items received by our reference department are not routed out to anyone. Such items, if it appears at all likely that they will be of value at some future time, are kept by the reference department.

The second important part of the job is to keep all of the informative material which reaches the bank readily available at all times. We have two general divisions in our reference files—each utilizing separate file cabinets, and separate bookcases. One contains articles, booklets, pamphlets, items and books of a general business nature. The other is confined to material of a banking nature.

In installing these reference files we considered, of course, the idea of cross-indexing each item, article, pamphlet, report and book. However, the labor entailed in doing this decided us against that plan. We therefore utilized a folder-filing system for both divisions. This has worked out very satisfactorily, for with a sufficiently large variety of subject headings we seldom have an unwieldy amount of material under any one subject. Also, this system has proved very flexible, since we can change or re-classify at will—merely by making up new folders.

In our banking reference files we classify according to departments. In the business reference files material is classified according to alphabetical order.

After the reference department has been set up, it will be found advantageous to notify all officers and department heads—giving them a list of the classifications in the files, suggesting that they send any material which may be stuffed away in desk drawers or personal files, and inviting their frequent use of the new department at every opportunity.

In any such reference department, an important consideration is the selection of helpful reference books. Such a selection will, of course, depend to a large extent upon the interests and budget of the individual bank. A letter to the various publishing houses which specialize in banking and business books will bring a list of suggested books from which the individual banker may best select a reference library for his own bank. Without even touching upon the many splendid books on various phases of banking and business, we might make the following very general suggestions.

Any such reference department should, by all means, have a good dictionary, a good set of encyclopedias, a good history of the state and the city in which the bank is located, and a complete set of American Institute of Banking textbooks.

NEEDLES IN HAYSTACKS

ON the whole, it will be found that a reference department such as we have outlined will soon more than repay the time and trouble taken to set it up and maintain it. In many cases it will be found that such a file will eliminate costly errors by providing the exact information needed at a moment's notice. In all cases, it will be found to be a time-saver, for it will eliminate those otherwise lost moments spent in searching about from desk drawer to desk drawer, or department to department in search of some particular article.

Lastly, in many instances it will be found that a reference department will prove highly popular with customers—individuals, business houses and local correspondents. Those frequently troublesome questions which may be asked can be directed to the reference department where, if it is operated at all efficiently, the answers will likely be found.

BANKING'S PICTURES

GLOBE, WIDE WORLD, ACME

The President

Mr. Roosevelt is the first President to be sworn in on the new January inauguration date. In the early days of the Republic the journey to Washington of a new President was so arduous that the ceremony had, for practical reasons, to be postponed to March 4. According to the picture at the right, Mr. Jackson even required a spare horse

WIDE WORLD PHOTOS

Out of the Depression

NEARLY all of us recognize that as intricacies of human relationships increase, so power to govern them also must increase—power to stop evil; power to do good. The essential democracy of our nation and the safety of our people depend not upon the absence of power but upon lodging it with those whom the people can change or continue at stated intervals through an honest and free system of elections. The Constitution of 1787 did not make our democracy impotent.

In fact, in these last four years, we have made the exercise of all power more democratic; for we have begun to bring private autocratic powers into their proper subordination to the public's government. The legend that they were invincible—above and beyond the processes of a democracy—has been shattered. They have been challenged and beaten.

Our progress out of the depression is obvious.—President ROOSEVELT, January 20

All About Washington

U. & U.

Three members of the President's Committee on Administrative Management: left to right, Louis Brownlow, H. Luther Gulich and Charles E. Merriam. On January 12 President Roosevelt announced his proposals for sweeping reform of the Washington machinery, calling for two new cabinet posts, an Auditor General instead of a Controller General, six executive assistants at the White House and a general reshuffling of bureaus

The Senate committee on Government reorganization has its own plan for a Washington shake-up. At the right, Senators McNary, Townsend, Byrd, chairman, O'Mahoney and Robinson. This committee is emphasizing economy in the Federal set-up, while President Roosevelt's touchstone is efficiency, regarding which he said in his reorganization message to Congress: "Will it be said 'democracy was a great dream, but it could not do the job?' Or shall we, here and now, without further delay, make it our business to see that our American democracy is made efficient so that it will do the job that is required of it by the events of our times?"

HARRIS & EWING

Senator Joseph T. Robinson, majority leader in the upper house

PICTURES

Senator Arthur H. Vandenberg, a leading member of the minority group

HARRIS & EWING

Senator Robert F. Wagner, Chairman, Banking and Currency Committee

HARRIS & EWING

HARRIS & EWING PHOTOS

Certain financial legislation expires this year (see page 17), and officials met recently to discuss necessary extensions. Left to right, seated, Senator Glass (Appropriations), Senator Robinson (Majority), Representative Bankhead (Speaker), Secretary Morgenthau, Representative Steagall (Banking and Currency), Representative Daughton (Ways and Means); standing, Senator Harrison, R.F.C. Chairman Jones, Herman Oliphant (Treasury Department), Representative Vinson, (Naval Affairs), Representative Goldsborough, Daniel Bell (Budget), Governor Eccles (Federal Reserve System)

Senators Henry Cabot Lodge and John G. Townsend as they attended the first Banking and Currency Committee meeting

Senators Josiah W. Bailey, Carter Glass and James F. Byrnes. It was Senator Glass's 79th birthday

Congressional freshmen are going to school. Classes, meeting twice a month, will hear congressional and administrative officials. Speaker Bankhead, shown below conducting the first class, stressed the importance of prompt answers to letters from home

Census of Other Lenders

(See article, page 14)

NUMBER REPORTING | **AVERAGE PAYROLL**

Building and Loan Associations

Instalment Finance Companies

Personal Finance Companies

Mortgage and Farm Mortgage Companies

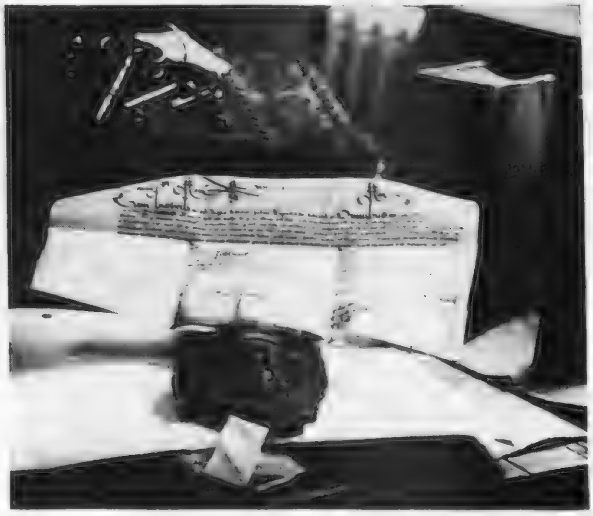
Samuel Pepys' Bank

Where the Machine Age Defers to Tradition

"AT my accounts, it being a great month, both for profit and layings out—the last being £89 for kitchen, and clothes for myself and wife, and a few extraordinaries for the house; and my profits, beside salary, £239; so that I have this week, notwithstanding great layings out, and preparations for laying out, which I make as paid this month, my balance to come to £1,203."

Thus wrote Samuel Pepys, famous 17th century diarist. A meticulous individual, he was among the earliest clients of Hoare's Bank, one of the oldest in England.

The pictures on these two pages illustrate some of the traditions continued at Hoare's (the depositor, at the right, using a quill pen, for example), and some of the bank's valuable relics of English business history.



The oldest deed connected with Hoare's Bank, dated June 10, 1569, and bearing the large seal of Queen Elizabeth

One of the oldest ledgers in the bank. Among the institution's clients was Queen Charlotte, wife of George III

The steel Georgian stove, below, is still in use. The two young men in top hats and tails are bank messengers

Leather pocket flask, bottle and other relics left with the bank by the widow of Oliver Cromwell's General Fairfax

ALL PHOTOS FROM KEYSTONE

The iron grille through which the clerk and messenger are talking is believed to have been used in the original bank. Many traditions of the bank have been preserved from its founding, one being that some member of the Hoare family must sleep on the premises each night. The founder of the banking family was Richard Hoare, who took over the affairs of a goldsmith in 1673. Just 21 years later the Bank of England was established

One of the bank's oldest employees examining a ledger of recent vintage. While many of Hoare's current practices are reminiscent of much earlier banking times, the institution was among the first to issue its own printed notes and, subsequently, check books and pass books. The latter were known in the 17th century as "washing books". Before they were introduced, depositors verified their own accounts in their bank's ledgers and signed the withdrawal entries, the bankers themselves signing deposit entries

In 274 years of banking the ledgers do pile up. In a vault that looks like the "stacks" in a large library, the bank's earliest books are kept

In these ancient books, many still well preserved, are the names of John Dryden, the poet, Sir Godfrey Kneller the painter, and several of the Bank of England 's first directors

While Business Improves

UNIVERSAL NEWSREEL FROM SOIBELMAN

Labor's recently developed sit-down technique, as practised by Fisher Body workers. While General Motors employees alone are not doing a million dollars worth of work daily, students of labor movements are wondering whether such tactics may not be a boomerang to the striking workers. Those "sitting down" are a minority, and others willing to work are voicing their dissatisfaction

PAGE IN THE LOUISVILLE COURIER-JOURNAL

Going Up!

In Nebraska a one-house legislature is meeting. While the innovation's proponents claim greater speed and efficiency for such a body, it was noted that party distinctions were still present

WIDE WORLD

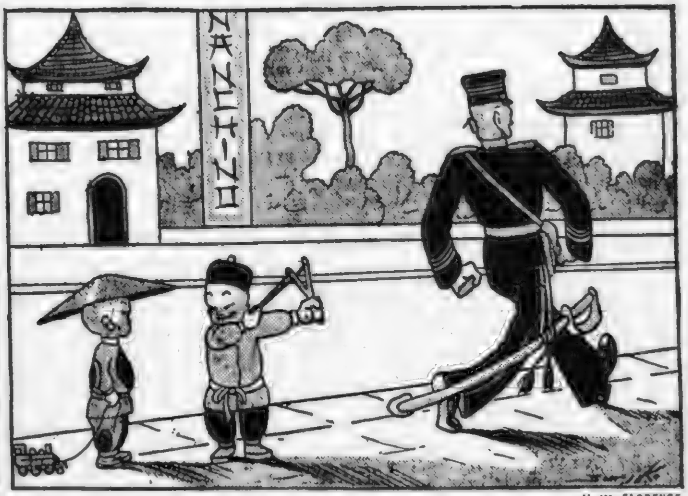
Good Morning, Doctor

MARCUS IN THE NEW YORK TIMES

Washington Bureaucrat's Nightmare

THOMAS © ASSOCIATED NEWSPAPERS

WIDE WORLD



IL 420, FLORENCE

"Now I'll show you how a Chino-Japanese war breaks out"

Above, child's play in Japan, where these Nipponese have built a snow model of their favorite European dictator. The German-Italian-Japanese treaty against communism is causing government strife

At the right, young Spaniards play soldier with serious faces and wooden rifles in a street that has not yet been bombed or barricaded

WIDE WORLD

While the European countries were making proposals and counter-proposals regarding non-intervention in Spain, and some were hurrying more troops to one side or the other in the Spanish war lest their proposals be suddenly accepted, British Ambassador Drummond and Italian Foreign Minister Ciano signed a treaty of Mediterranean friendliness, before a statue of Peace. The two nations assured each other that there was plenty of room for both east of Gibraltar. At the left, Count Ciano is signing the pact

Several Personal Opinions

HARRIS & EWING

U. & U.

U. & U.

UTILITY REFUNDING

During the last two years the northern companies have been able to refund more than $250,000,000 . . . while the southern companies, under the threat of competition and duplication by the T.V.A. have been wholly unable to refund. If the southern companies were able to refund their outstanding bonds and preferred stocks on a similar basis it would save them more than $6,000,000 in interest and preferred dividend charges.—Wendell L. Willkie, President, Commonwealth and Southern Corp.

WORLD'S OUTLOOK

The prestige and influence of the United States in international affairs was never greater than today and never was used more widely to promote peace and to restore normal conditions of trade among nations. . . . Recovery is worldwide. There is a growing recognition of the interdependence of nations and a better realization that both nations and individuals are affected by the success or failure of their neighbors. —T. J. Watson, President, International Business Machines Corporation

RUMORS UNFOUNDED

There have been reports that the F.D.I.C. was going into the surety business in competition with private interests. Under the requirements of the banking law the Corporation scrutinizes the surety policies of banks which are its members and in some cases it has ordered banks to take out additional policies. This corporation has never given any thought to going into the surety business.—Leo T. Crowley, Chairman, Federal Deposit Insurance Corporation

•

CHIEF WORRY

The principal problem of the period that lies before us may well be to avoid a too sudden or too full use of the nation's swollen bank deposits and credit resources.

Should the employment of credit proceed too rapidly in relation to the reemployment of workers in productive industry the result might be disconcerting developments in the price structure.

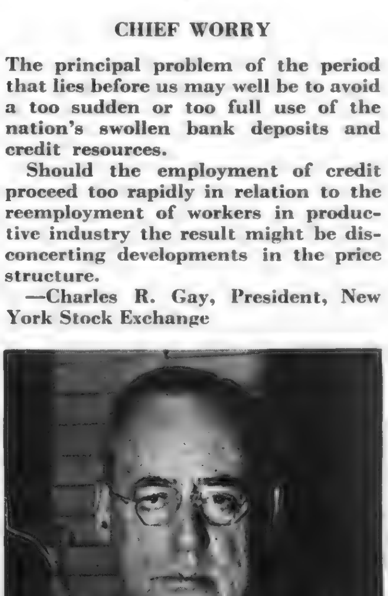
—Charles R. Gay, President, New York Stock Exchange

MORTGAGE INSURANCE

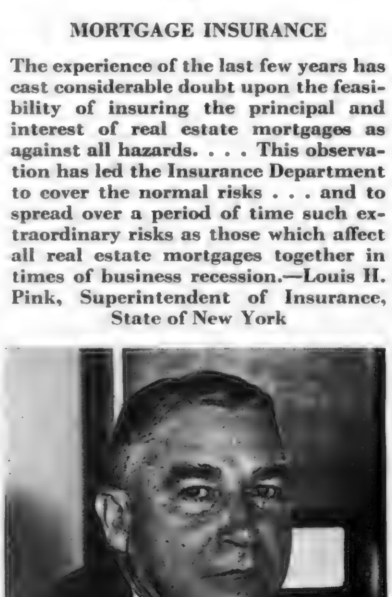
The experience of the last few years has cast considerable doubt upon the feasibility of insuring the principal and interest of real estate mortgages as against all hazards. . . . This observation has led the Insurance Department to cover the normal risks . . . and to spread over a period of time such extraordinary risks as those which affect all real estate mortgages together in times of business recession.—Louis H. Pink, Superintendent of Insurance, State of New York

ACCOUNTANTS' RESPONSIBILITY

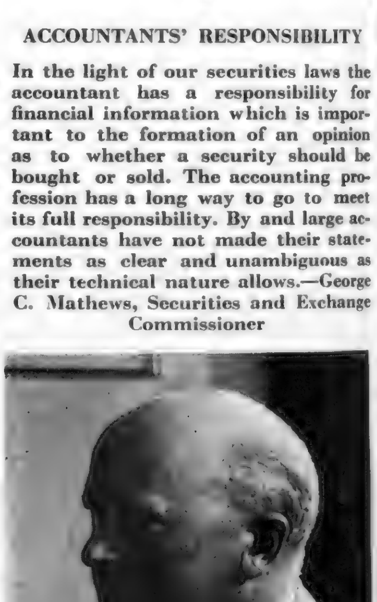
In the light of our securities laws the accountant has a responsibility for financial information which is important to the formation of an opinion as to whether a security should be bought or sold. The accounting profession has a long way to go to meet its full responsibility. By and large accountants have not made their statements as clear and unambiguous as their technical nature allows.—George C. Mathews, Securities and Exchange Commissioner



KEYSTONE



U. & U.



HARRIS & EWING

Recent Authors

INTERNATIONAL

THE CENTRAL BANK RÔLE

Central banks have also a curious and unique relationship to the commercial banks of a country, for they are both closely related to the commercial banks and independent of these banks, and in fact have supervisory powers over them. For every single occasion when a central bank may have opposed some governmental policy there may be found in history a dozen occasions when a central bank has acted to restrain commercial banking activities.—W. Randolph Burgess, Vice-president, Federal Reserve Bank of New York, *The Reserve Banks and the Money Market* (Harper)

•

RESERVE SYSTEM'S POWERS

The monetary legislation of the past four years has so weakened the powers of the Federal Reserve System in the fields in which a central bank usually operates, except in its rôle as fiscal agent of the Government, that it has been prevented from functioning in a normal and effective way. Its proper powers have been extensively taken over by the Government, and it is no longer fair to hold the System responsible for performing the usual functions of a central bank.—E. W. Kemmerer, Princeton University, *ABC of the Federal Reserve System* (Princeton University Press)

U. & U.

BANK CREDIT'S FUNCTION

The analysis of banking assets would go to show that the main function of modern bank credit is in the direct or indirect financing of corporate and unincorporated industry. "Commercial paper" is no longer the chief banking asset.

It is maintained that the ability of the banks to aid ordinary commerce is increased by the intimate connection of the banks with the stock market.—Benjamin M. Anderson, Jr., Economist, Chase National Bank in the City of New York, *The Value of Money* (Richard R. Smith)

•

PERSONAL BUDGETS

Budgets should provide an intelligent and economical control over monetary expenditures. Financial planning is as necessary and beneficial to the individual as it is to the business enterprise. The implication of a narrow life, hemmed in by the restrictions of an arbitrary budget, is effectively refuted by the frequent realization of a more complete life made possible by intelligent financial planning . . . Financial planning makes luxuries attainable. . . . David F. Jordan, New York University, *Managing Personal Finances* (Prentice-Hall)

HARRIS & EWING

TOO MUCH MONETARY GOLD

A real problem has been created by the great increase in the world's monetary gold stock which has taken place since 1929. A general credit expansion corresponding to this increase in gold stocks is highly undesirable. It is important, however, that the sterilization of part of the existing supply not be accomplished merely by stepping up existing gold reserve requirements and thereby creating a need for proportionally increased increments of gold to take care of future growth.—C. O. Hardy, The Brookings Institution, *Is There Enough Gold?*

•

GOLD STANDARD ABUSES

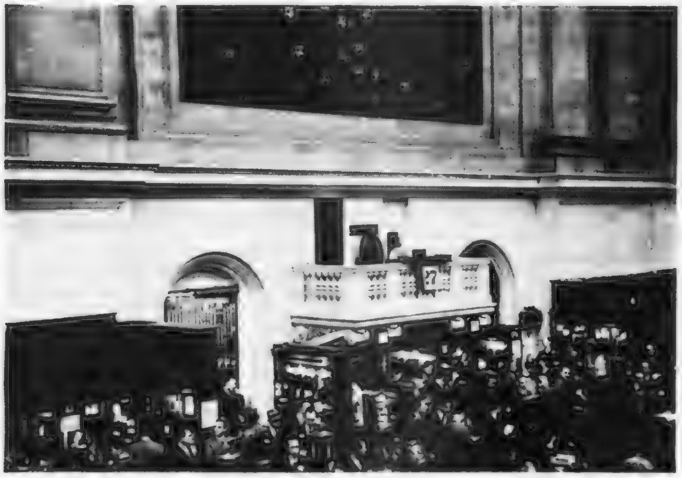
There are several abuses which have developed from the working of the gold standard under modern conditions which the leaders of industry and trade rightly resent and will not, I think, be prepared to tolerate in future. . . . they have realized that a rapid and extensive fall of prices for any reason . . . is equally disastrous.

They will insist upon some system which will ensure a reasonable measure of stability in the general level of prices.—Sir Arthur Salter, *World Trade and Its Future.* (University of Pennsylvania Press)

INTERNATIONAL

Standards Long Established

RECENTLY Charles R. Gay, president of the New York Stock Exchange, said: "Our first loyalty is to the public—and our enduring welfare depends on an intelligent conception of our fiduciary relationship with the public. . . . Our standards and code of conduct, as outlined in our constitution and rules, are long established and well understood. The Exchange expects all of us—members, partners and employees—to observe them, both in the letter and the spirit."



The South wall of the New York Stock Exchange trading room, conspicuous feature of which is the rostrum from which are made announcements by the Exchange to brokers on the floor. Above it is the annunciator board, where traders' numbers flash when telephone messages come to them

. . .

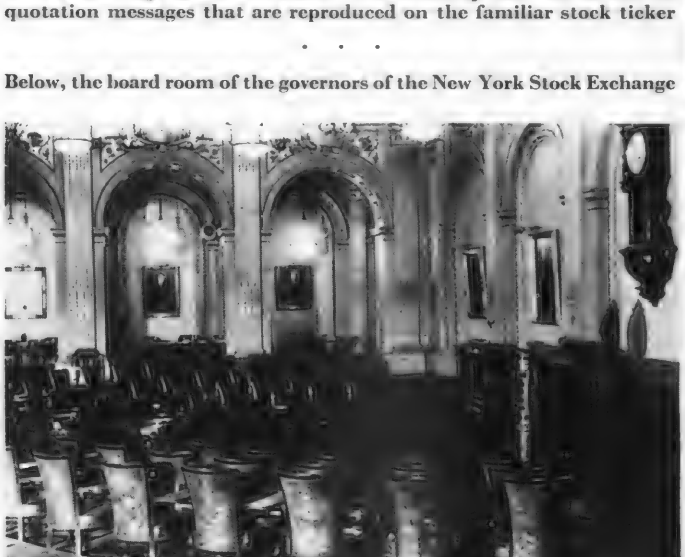
Above at the right, 150 telephone operators relay up-to-the-minute quotations to the Exchange's member firms

. . .

Below at the right, in the control room a ticker operator sends out the quotation messages that are reproduced on the familiar stock ticker

. . .

Below, the board room of the governors of the New York Stock Exchange



ALL PHOTOS FROM ACME

Keeping Up With Banking

Rutgers University

June 21–July 3

REGISTRATION for the third resident session of the Graduate School of Banking, to be held June 21 to July 3 at Rutgers University, New Brunswick, New Jersey, closes April 15. Many inquiries from prospective students have already been received.

Admissions to this national educational institution, sponsored by the American Bankers Association through the American Institute of Banking, are limited each year to the first 200 applicants who meet the entrance requirements. With the enrollment of the new class the school's student body will number approximately 600 bank executives, representing all sections of the country. The first graduating class, which enrolled when the school was started in 1935, will receive diplomas at the conclusion of the 1937 resident session.

Each of the three resident sessions covers two weeks of intensive study at Rutgers; the interim studies, conducted over a period of eight months between the campus instruction, are under the supervision of the faculty. To complete the course, therefore, each student must have 16 months of supervised home study in addition to the six weeks of resident work at Rutgers.

STEINMETZ

Syracuse Bankers Take Finance Course

Special Dispatch to The Herald

New York, June 16.—William T. McCaffey, president of the Lincoln National Bank and Trust Company of Syracuse, and Perrin L. Babcock, also

ST. PAUL MAN WILL ATTEND BANK SCHOOL

R. F. Sturley, Assistant Cashier First National, Registers for Graduate Course.

ST. LOUISANS TO ATTEND GRADUATE SCHOOL OF BANKING—

Five St. Louisans have been reg-

Detroiters Attend School of Banking

NEW YORK, June 15 —

WORCESTER BANKER TO STUDY AT RUTGERS

Harold R. McIntosh Will

PORTLAND BANKERS TO TAKE INSTITUTE COURSE

NEW YORK, June 19.—Jesse J. Gard, comptroller, H. L. Stiles, as-

Five Newark Bankers Attend Graduate School

Five bankers from Newark have been registered for the 1936 session of the Graduate School of Banking. They are: David C. Kirk, assistant secretary-treasurer, Fidelity Union Trust Company; Frank C. Riggs,

PITTSBURGH BANKERS ENROLL FOR SCHOOL

Will Attend 1936 Session of Graduate School of Banking

Special to The Pittsburgh Press

NEW YORK, June 15—Five bankers from Pittsburgh have been

Seattle Bankers Enroll for School

Victor R. Graves, trust officer and assistant secretary Seattle Trust and Savings Bank, and Ross P. Williams, assistant vice president of the University National Bank of Seattle, have been

SAN FRANCISCO BANKERS TO ATTEND GRADUATE SCHOOL OF BANKING

NEW YORK June 18.—Four bankers from San Francisco have been registered for the 1936 session of the Graduate School of Banking, it

PHILA. BANKERS TAKE NEW COURSE

Special to The Inquirer.

NEW YORK, June 15.—Eight bankers from Philadelphia have

Milwaukeeans Will Attend Banking School

NEW YORK, June 15—Alphonse J. Mayer, auditor of the Marshall & Ilsley Bank, Sherburn M. Driessen, department head of the Mar-

FOUR BANK WORKERS WILL TAKE COURSES

Houstonians Register for Session at Rutgers University

Four Houston bank employes have registered for the 1936 session of the School of Banking, June 22

NEW ORLEANIANS TO TAKE BANKING COURSE

George J. Ruhlman, assistant auditor of the Hibernia

Youngstown Bankers Registered in School

A. T. Button, secretary of The Dollar Savings & Trust Co.; A. I. Kidston, assistant secretary, City Trust & Savings Bank; and L. A.

Utican to Attend School of Banking

Theodore Rokahr, vicepresident and treasurer of the First Citizens Bank & Trust Company of Utica,

BANKERS HERE JOIN CLASS

Five Pittsburgh bankers have registered for the 1936

Two Dallasites Registered for A. I. B. Course

June 20.—William F.

3 BUFFALO BANKERS ENROLL IN SCHOOL

Three Buffalo bankers will enroll in the 1936 session of the Graduate

FOUR BANKERS HERE LEAVE FOR SCHOOL

Clevelanders Enroll for Classes at Rutgers University

Four Cleveland bankers have qualified for the

Keeping Up With Banking

Pittsburgh Forum Conference

THIS year's Regional Banking Conferences of the American Bankers Association at Pittsburgh (January 28–29), Portland, Oregon (February 25 and 26), and Atlanta (March 25 and 26), are continuing the Association's program of meetings in various sections of the country.

The purpose, as President Tom K. Smith has said, is to provide bankers with the opportunity for forum discussion of their problems, methods and policies. The sessions are being devoted to 15 and 20 minute addresses on banking subjects of current importance, followed by discussions from the floor.

Practical topics taken up cover a wide range of banking activity. They include: insurance and crime protection, banks and agriculture, the chartering of banking institutions, loan administration policies, investment policies, public relations, banking education, personal loan departments, F.H.A. mortgages, trust business, and activities of the American Bankers Association in banking studies and research.

Arthur E. Braun, president of the Pittsburgh Clearing House Association and of the Farmers Deposit National Bank, was named general chairman of the committee for the Pittsburgh Conference which inaugurates the 1937 series. F. F. Brooks, president of the First National Bank, Pittsburgh, was chosen vice-chairman, while a number of other local bankers assisted by serving on the arrangements, hotel and registration committees. The pictures on this and the two following pages show the speakers and subjects on the Pittsburgh program.

PHOTOS BY HARRIS & EWING

Tom K. Smith, President of the Association and president, Boatmen's National Bank, St. Louis, will speak on "Why Banks Should Counsel Together", and "Utilization of Research by the American Bankers Association"

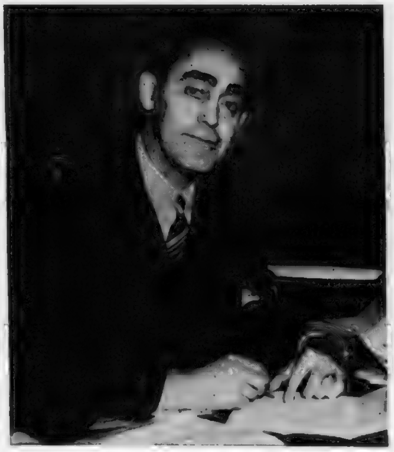
Arthur E. Braun, president of the Pittsburgh Clearing House Association and chairman of Pittsburgh committees

F. F. Brooks, president, First National Bank, Pittsburgh, and vice-chairman of local committees

Sidney M. Price, cashier, First National Bank, Malden, Massachusetts—"Bank Insurance and Crime Protection"

PHOTOS H. & E. UNLESS OTHERWISE INDICATED

John J. Rowe, president, Fifth-Third Union Trust Company, Cincinnati—"Investment Policy"



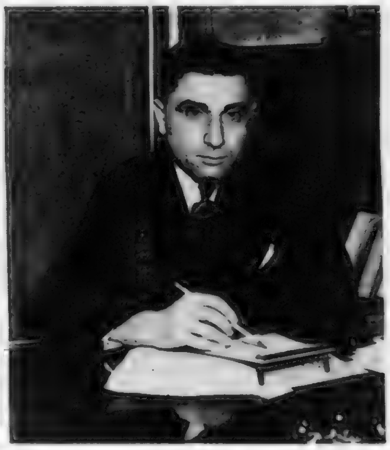
Hon. S. H. Squire, Superintendent of Banks, State of Ohio, Columbus—"Chartering of Banks"

Arthur J. Linn, Comptroller, Hamilton National Bank, Washington, D. C.—"Expense Control"

John J. Driscoll, Jr., Driscoll, Millet & Company, Philadelphia—"Income from Banking Services"

GREYSTONE

Ben E. Young, vice-president, National Bank of Detroit, "Research in Costs and Methods of Operation"

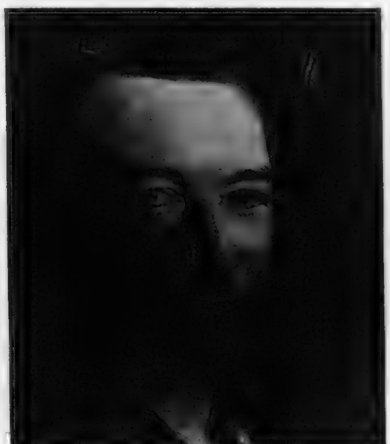


M. Bernhard, trust officer, Hudson County National Bank, Jersey City—"Personal Loan Departments in Banks"

E. B. Harshaw, vice-president, Grove City National Bank, Grove City, Pennsylvania—"The Bankers' Part in Building an Agricultural Community"

LININGER

Dunlap C. Clark, president, American National Bank, Kalamazoo, Michigan—"How One Bank Met Its Public Relations Problems"



BLANK-STOLLER

George V. McLaughlin, president, Brooklyn Trust Company, Brooklyn, New York—"Loan Administration Policy"

PHOTOS H. & E. UNLESS OTHERWISE INDICATED

Earl V. Newton, assistant secretary, Cleveland Trust Company, Cleveland—"Banking Education and Public Relations"

John Remington, vice-president, Lincoln-Alliance Bank and Trust Company, Rochester, New York—"Research in the Trust Field"

Walter B. French, executive vice-president, Trust Company of New Jersey, Jersey City—"Bank Officers in School at Forty"

Frank W. Sutton, Jr., president, First National Bank, Toms River, New Jersey—"The Place of F.H.A. Mortgages in Savings Banks and Savings Departments"

STEINMETZ

Gilbert T. Stephenson, Director of Trust Research, Graduate School of Banking, New York City—"Preserving the Association between Banking and Trust Business"

Wood Netherland, vice-president, Mercantile-Commerce Bank and Trust Company, St. Louis—"Research on Federal Lending Agencies, Postal Savings and Bank Chartering"

WHITE

Paul B. Detwiler, assistant cashier, Philadelphia National Bank—"Banking Talks to Schools and Clubs"

BACHRACH

Ralph E. Bailey, comptroller, National Shawmut Bank, Boston—"Budgetary Control"

WIDE WORLD

Branch Rickey, vice-president and general manager, St. Louis National Baseball Club, St. Louis—"The Scoreboard"

CALENDAR

Meetings and Studies

THE second in the series of three regional banking conferences being held early this year under auspices of the American Bankers Association takes place at Portland, Oregon, on February 25 and 26. Hotel Portland is to be the scene of the meetings.

The purpose of these conferences—the first at Pittsburgh, January 28 and 29 and the third scheduled for Atlanta, March 25 and 26—is to provide bankers in various sections of the country with an opportunity for forum discussions on current banking methods and policies. Tom K. Smith, President of the Association, is directing the series.

TRUST MEN'S CONFERENCE

ANOTHER important February gathering of bankers is the 18th Mid-Winter Trust Conference of the Association's Trust Division, held at the Waldorf-Astoria, New York City, on the 9th, 10th and 11th. This annual meeting brings together prominent business and professional men, as well as bank and trust officers from all parts of the country.

President Smith will address one of the sessions, his topic being "The Outlook for American Trust Business". Other features of the varied and interesting program include a discussion of "Trust Business Problems", lead by Gilbert T. Stephenson, Director of Trust Research, Graduate School of Banking, and another discussion, "Trust Law Problems", the leader of which is to be Austin W. Scott, professor of law, Harvard University law school. At the final business meeting of the Conference a symposium, "What Is Being Done to Put Trust Business on a Paying Basis", will present accounts of activities in this connection in several states.

•

Pictures of speakers at the Pittsburgh Forum appear on pages 46, 47 and 48.

SAVINGS CONFERENCE PROSPECTUS

AN unusually comprehensive program is being worked out for the Spring Savings Conference, sponsored by the Savings Division, American Bankers Association. The dates are March 11 and 12 and the place is the Waldorf-Astoria, New York.

The list of speakers and topics is not yet complete, but a tentative draft of the program provides for addresses on many timely subjects. Among them may be mentioned: the trend of interest rates; uniformity of interest rates and regulations; the number and extent of Federal agencies in banking; F.H.A. mortgages in savings banks and savings departments; what securities may be used for the investment of banking funds; personal loan departments; how to capitalize the thrift influence under the Social Security program; research in savings banking; the fiscal reconstruction of railroads; the present status of municipal obligations in banks' investment accounts; savings banks under changing conditions; public relations during the recovery; and suggestions for a reasonable program in revamping the New York moratorium on mortgages.

A meeting of managers of school savings activities will discuss trends in these savings under improved methods of operation.

GOVERNMENT LENDING AGENCIES

A. G. BROWN, president, The Ohio Citizens Trust Company of Toledo, has been appointed chairman of the Subcommittee on Government Lending Agencies of the Committee on Banking Studies, American Bankers Association. Other members of the Subcommittee are: M. A. Graettinger, executive vice-president, Illinois Bankers Association, Chicago; Charles H. Mylander, vice-president, Huntington National Bank, Columbus, Ohio; W. J. Waller, vice-president, Hamilton National Bank, Washington, D. C.; Charles

(CONTINUED ON PAGE 85)

CONVENTIONS

A.B.A. Meetings

Feb. 9–11	Mid-Winter Trust Conference, Waldorf-Astoria, New York, N. Y.
Feb. 25–26	Regional Conference, Hotel Portland, Portland, Oregon
Mar. 11–12	Spring Savings Conference, Waldorf-Astoria, New York, N. Y.
Mar. 25–26	Regional Conference, Atlanta-Biltmore Hotel, Atlanta, Georgia
Apr. 18–21	Spring Meeting of Executive Council, The Arlington Hotel, Hot Springs, Arkansas
June 7–11	American Institute of Banking, Hotel Lowry, Saint Paul, Minnesota
June 22–July 3	Graduate School of Banking, Rutgers University, New Brunswick, New Jersey
Oct. 11–14	A.B.A. Convention, Statler Hotel, Boston, Massachusetts

State Associations

Feb. 18	Connecticut Annual Mid-Winter Banquet, Hotel Taft, New Haven
Apr. 23–24	New Mexico, Santa Fe
May 6–7	North Carolina, Carolina Hotel, Pinehurst
May 6–7	Oklahoma, Oklahoma City
May 10–12	Missouri
May 11–12	Mississippi
May 12–14	Kansas, Wichita
May 18–20	Texas, Gunter Hotel, San Antonio
May 20–22	New Jersey, Traymore Hotel, Atlantic City
May 24–26	Illinois, Chicago
May 26–28	Pennsylvania, Hotel Traymore, Atlantic City, N. J.
May 27–31	District of Columbia, Greenbrier, White Sulphur Springs, West Virginia
May 27–June 1	New York, Aboard S.S. Washington sailing to Bermuda
June 2–3	South Dakota, Rapid City
June 10–12	Massachusetts, New Ocean House, Swampscott
June 18–19	Colorado, Stanley Hotel, Estes Park
June 24–26	Virginia and West Virginia (Joint Convention), the Greenbrier, White Sulphur Springs, West Virginia
June 24–27	Michigan, Grand Hotel, Mackinac Island

Group Meetings

Feb. 6	New York Chapter, A.I.B., Annual Banquet, Hotel Astor
Feb. 9	Virginia, Group 1, Old Point Comfort

Other Organizations

Feb. 9–11	American Management Association, Benjamin Franklin Hotel, Philadelphia
Feb. 19–20	Mid-Winter Conference, American Savings and Loan Institute, Boston, Massachusetts
Mar. 19–20	Convention of Great Lakes Region, National Association of Real Estate Boards, Kentucky Hotel, Louisville, Kentucky

No Minimum Balance

By JOHN FARNHAM

THE no-minimum-balance system of assessing service charges, whereby the customer pays a flat sum for each check written, regardless of the size of his account, may never develop into standard American banking practice, but it seems to have stirred many bankers to re-open a study of service charges in general with the result that the philosophy back of service charges is apparently undergoing a change.

In bringing the profit motive into the daylight, the no-minimum-balance systems have set many bankers to thinking about the entire subject of service charges. "This business brings us up short," one banker said recently. "It brings out the fact that, to my mind, we have been going at service charges from the wrong angle. We have looked upon them as an end in themselves, rather than as a means to an end."

THE ULTIMATE END OF SERVICE CHARGES

HE continued by pointing out that service charges ought to be so designed as to indemnify the bank collecting them against actual loss but that their ultimate goal should be the elimination of the necessity for collecting them. They should, he said, be used as a lever to pry up balances, or to diminish activity or do both. He felt that this goal could be obtained through proper schedules, but doubted that no-minimum-balance systems held the answer for the great majority of banks.

Working along similar lines another bank recently devised a system, which, while it is probably not unique, is illustrative of the principle that service charges should not be designed to produce profits. It is also interesting because it is constructed without any base charge whatever. Without differentiation between accounts as a result of balance, the bank assesses each customer 4⅓ cents for each check paid and 2 cents for each transit item handled. These costs were determined after an analysis of the bank's expense accounts on a basis of two years of operation. Against these charges to each account are set the earnings of the collected balance and the account is charged with the amount that the costs exceed the earnings figure.

TWO DIFFERENCES FROM METERED CHARGES

TO this point the system is approximately standard metered service charge practice. However there are differences. First of these is the fact that the earnings figure is theoretical rather than actual. It is not based on what the bank is earning, but on what the management feels that it ought to earn (in this instance 4 per cent) on the average, year in and year out.

The second difference between this system and standard metered practice lies in the fact that in months when the customer has a credit balance of earnings, above the charges on his account, the bank carries this credit forward on the analysis card and uses it in months when earnings have not equalled charges.

Thus, on at least two counts, the bank seems to have leaned over backwards to give the customer a break. But it is more than likely that this will redound to the bank's advantage over a period of years when the effect on individual accounts is considered, as follows:

ACCOUNT A, a salaried individual.

Average collected balance	$100
Average monthly activity—4 transit items @ 2¢	$.08
15 checks @ 4⅓¢	.65
Total charges	$.73
Earnings @ 4 per cent	.33
Debit for account of service	.40
Average collected balance necessary to wipe out debit	$225

ACCOUNT B, a retired business man.

Average collected balance	$500
Average monthly activity—8 transit items @ 2¢	$.16
15 checks @ 4⅓¢	.65
Total charges	.81
Earnings @ 4 per cent	1.66
Excess of average collected balance above amount required to produce earnings equal to charges	$250

In the case of these two accounts it is felt that they can both be reorganized, as a result of the service charge system, to the bank's advantage. In the case of Account B it is suggested that the customer transfer a part of his balance either to a savings account or to a certificate of deposit where it will earn interest. As for Account A, it is felt that, in most instances where the balance can be kept at $100, it can be increased above that figure.

Now take the case of two other accounts:

ACCOUNT C, a neighborhood grocery, which uses its account mainly to collect on the checks that it has cashed.

Average collected balance	$750
Average monthly activity—300 transit items @ 2¢	$6.00
40 checks @ 4⅓¢	1.73
Total charges	7.73
Earnings @ 4 per cent	2.50
Debit for account of service	5.23

ACCOUNT D, a low salaried worker.

Average collected balance	$40
Average monthly activity—3 checks @ 4⅓¢	.13
Total charges	.13
Earnings @ 4 per cent	.13

Examining these two accounts it will be seen that this system works with impartial justice. It is, perhaps, conjectural whether Customer D has any business with a checking account, but it is certain that a relatively small number of banks would turn him down if he asked for one. However, under almost any system, he would be charged a flat sum from which the bank would make a profit. But this profit might be gained at the loss of good will.

Account C presents a very different problem. Here the balance is satisfactory so far as checks drawn are considered, but it requires so much service on collections that without a charge of this sort it becomes a source of constant expense. Indeed, it is probable that a bank would be money in pocket, if Account C's could be turned into Account D's. But as that is impossible there is no valid reason why the Account C's should not be made to pay their way. Such customers are seldom able to increase their balances to any extent, but a great majority of them are perfectly willing to pay for their collections if they know why. But explanations must be simple and in this case they can be. By basing its earnings on the whole collected balance rather than on the collected balance less reserves, as is done in many service charge systems, the banker explaining the system discussed here can do it without mentioning reserves, about which the average individual knows nothing and cares less.

Keep Trust Clients Sold

By ALBERT JOURNEAY

Vice-president, The Purse Company, Chattanooga

TRUST departments have a sales problem that few other businesses face—namely, to keep the business sold during the period elapsing between the time the individual signs his will or insurance trust agreement and his demise. This may be called the retention problem. It affects primarily wills, trusts under wills, and insurance trusts. It does not affect, to such a great degree, immediate business such as living trusts, agency, or the corporate services where constant contact with customers is maintained.

Trust departments have always had this problem but never has it been so keenly felt as today. It is one of the factors the depression has high-lighted. Not only changes that the recent years wrought in men's financial affairs, but the lack of confidence in banks, which temporarily swept the country, had its effects.

In some cases the leakage has been visible. Men or women, wishing to change their estate plans, have come to the trust department, requested the will or insurance trust which had been lodged there, and have advised the trust officer that they were changing the executor or trustee. In some insurance trusts part or all of the policies have been withdrawn for borrowing purposes and never returned.

More frequently the trust officer knows nothing about it. The first information he gets is when the maker dies and it is discovered that a new instrument has supplanted the old one, or that the insurance remaining in force is only a fraction of the original amount. How great this leakage in their new business files is, few trust companies know. I venture to state that it is more serious than is realized by any but trust departments which have analyzed their records and reviewed the documents on file with them.

SITUATION WAS LEFT ALONE

SO much for the problem. Why have so many trust officers allowed it to go so far without doing anything about it?

One reason has been that many trust officers had an unfounded belief that it was better "to allow a sleeping dog to lie". They felt it better not to remind a man that he had been intending to name a member of his family, his attorney or another trust company to carry out his wishes. In some cases, to be sure, this would have happened, but can one imagine weaker reasoning? Are there not stronger reasons today than ever for the employment of the corporate fiduciary?

A second reason, and a far more valid one, is that the task requires much careful work. Many trust departments, already understaffed, could find no way to undertake it at the moment. It has been put aside with those things that are left to be done tomorrow. Still another reason is that some trust officers who realized that something should be done about this really serious state of affairs didn't quite know what should be done or how to go about it.

DEFENSIVE SELLING

SOME, as a step in defensive selling, have retained on their mailing list men and women who they know have made wills and insurance trusts naming their institutions. These people receive the company's advertising with the same regularity that new prospects for trust service receive it. The reasoning back of this is, as one trust officer says: "Continued discussion with them through messages concerning estates and making them fruitful through wills and trusts is a marked aid in the retention of their business. These people will receive reminders of this kind from other sources and we would like to have ours come to them with reasonable frequency so that they may understand not only that we are still interested in them but that we are just as much alive to the fresh phases which keep developing as others could be.

"We have found a further benefit arising from this continued reminder and solicitation. People who had contented themselves with making a simple will which distributed their property and with which we would be concerned only as executor have been convinced by subsequent folders that trusts should be used in connection with their estates. Thus we have had a number of people go to their attorneys to have their wills rewritten so that we might be named not only as executor but as trustee."

Although this simple method is better than eliminating all contact as soon as the prospect's name is on the dotted line, it has some fundamental defects. The person who has made a will or trust agreement continues to be talked to in the same manner as one who has not. He may resent this; certainly some will think the trust company careless or wasteful. Still others, disliking the thought of death, will resent the constant reminder. They prefer to be reminded only as important changes that affect their plans occur, such as new tax laws, changes in their financial conditions or family changes. Moreover, this plan does not go far enough.

ONE TRUST COMPANY'S WAY

LET us look at better methods used by two or three leading corporate fiduciaries in dealing with this problem. Take, for example, a trust company in one of our large cities. It enjoys and merits the confidence of its clientele and the esteem of its community. Yet even this company found that it had a retention problem and it has been putting that phase of its new business in order.

Its first task was to review the wills and trusts on file. This was not easy, for the company is old and some of the wills in its files had been there for as long as 45 years. Many of the people who had deposited these old wills couldn't be found. However, every available method was used to find them, and, where possible, to work out a modern plan. Some had died, others had written new wills, and in only a relatively few cases did the old will meet today's conditions.

The bank has analyzed all life insurance trusts lodged with it and checked with the owners of the policies. Even with the preferred clientele that it serves, it found that nearly all such trusts had one or more policies out. In many insurance trusts where policies had been cancelled or large loans incurred the terms of the agreement could no longer have been carried out. Through consultation with these people the trust officers were able to help them revise their agreements so as to meet changed conditions and needs. Not only did they thus render a valuable service to the client but they saved the company from what might have been a bad situation later, and at the same time protected future beneficiaries.

(CONTINUED ON PAGE 54)

Trust Clients

(CONTINUED FROM PAGE 52)

Many wills, where the maker's financial condition was such that another method of disposal better fitted his needs, were removed from the bank's files along with those insurance trusts which could better be handled by option settlements. But never did the trust company suggest to a person the removal of his business without at the same time offering a better plan.

EFFORT WELL TAKEN

IN other words, the business lost was business that would have been undesirable and unprofitable. Not a single person objected to the company's efforts to provide a modern estate plan. In fact, the effort was most cordially and thankfully received. In a number of instances it resulted in a considerable increase in business. Further, when the review was complete the trust company knew exactly where it stood with relation to potential business.

The review of the business was only the first, though a most important, step in the retention plan. So that the bank will not find itself in the same position a few years hence a system for maintaining constant contact has been evolved. All clients, except those few who have specifically requested that no literature be sent to them receive copies of new books or material referring to important new developments in taxes or testamentary law or to services other than those for which the prospect has arranged. Usually a "butterfly" is attached saying the company thinks the accompanying message may be of interest to their clients.

With thousands of wills on file it is both too costly and too impractical to contact all of them personally at regular intervals. Consequently, the larger ones are segregated. At least once a year a solicitor calls on these. Where possible the solicitor who originally helped the client work out his estate plan makes this contact. On others the less expensive plan of contact by mail is employed.

Much the same plan has been followed by another progressive trust company, of St. Louis. Its experience tallies with the other's. The new business department sums up and justifies the additional expense of defensive selling under the following headings:

1. It eliminates unprofitable business.
2. It secures additional business from satisfied clients.
3. It corrects dissatisfaction in dissatisfied clients.
4. It holds profitable business.

ANOTHER CASE

ANOTHER strong trust company offers concrete evidence of the worthwhileness of defensive selling. It had discovered that certain business it thought it had, had slipped out unnoticed. It decided to find just what it had and what it didn't have. A competent new business solicitor was assigned the task of contacting those whose wills were on file. At this writing he is down to "E" in the alphabetical list of those whose wills had been lodged in the company's files.

Out of 300 called upon, 45 were those whose business had been removed. He was able to bring back 15. Thirty-one others who were in the process of departing were stayed. The 46 pieces of business thus salvaged and restored to good standing totaled well over $5,000,000 in volume. Moreover, the others, whether still in the fold or on the outside, were highly appreciative of the fact that the company thought enough of their business to make a personal call on them.

The Three Mortgage Essentials

By C. F. ELLERY

Assistant Vice-president, Fidelity Union Trust Company, Newark, New Jersey

EVERY real estate mortgage contains three essential elements: the mortgagor, the property and the title. To avoid repetition of the depression experiences it is necessary that the lender be able to pass properly informed judgment on all three.

As for the obligor, it is well to apply to him the three C's of credit—character, capacity and capital. If he passes these tests, his loan can be further investigated; if he does not, the lender has an opportunity to make a graceful withdrawal.

The collateral for mortgage loans involves many considerations. The type of property to be mortgaged is important; so, also, is the size of the lending institution. Certainly a small savings or commercial bank would not place in its portfolio large mortgages on apartment houses, business properties, theaters, factories, etc.; nor would an institution lend on property that was obsolete or unsuited to its location, for a moribund building is not a good risk. The character of locations changes rapidly. One that is good today may be poor tomorrow, and a single undesirable neighbor can start the blighting of an entire neighborhood, with serious consequences to the mortgagee.

CONSIDER THE OWNER

IN dwelling houses, owner occupancy is most desirable, and many banks or trust companies require such a condition. Consideration should also be given to the owner's ability to maintain his income so that he can meet not only his interest and taxes but an amortization schedule. Mortgages should not be permanent.

The appraisal of real estate cannot yet be called an exact science, although much progress toward that status has been made. The value placed on a property to be mortgaged is a most important factor, one that requires the possession and use of old-fashioned common sense. Mere perfunctory information, curbstone guesses, or inspections made from the seat of an automobile will not do. The most careful investigation should be made by experienced individuals whose training qualifies them as judges of realty values.

One successful investor in real estate mortgages, after applying all other tests, asks himself these questions: "Will this property be as valuable and desirable when the mortgage comes due as it is today? If I have to foreclose, will I want to own the property? Can I get my money out?" Even though a building measures up to all other requirements, he does not make the mortgage if his answers are "No."

The third essential, after the obligor and the property have passed the entrance examinations, is the validity and marketability of the title. All titles should be in fee and marketable. The property should be free of all liens except the prospective first mortgage.

RECORDS MUST BE AMPLE

EVEN though a mortgage is carefully made, careless servicing can cause its deterioration into a liability. A most important item in the proper management of a mortgage portfolio is a system of accurate and ample records kept by qualified clerks and officers. They will insist that the owners of the various properties comply with these rules:

Interest must be paid promptly and in full.

Taxes, assessments and all similar charges which may become prior liens must also be met promptly.

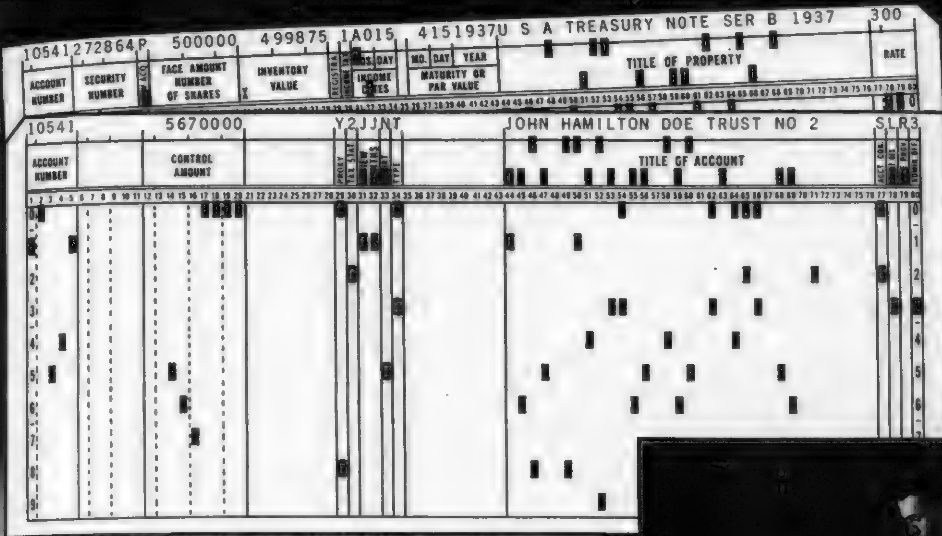
The fire insurance must constitute sufficient coverage and the premiums must be met when due. If other types of insurance are carried, the same requirements apply.

Owners must keep buildings in good repair.

Amortization payments must be met promptly.

The average property owner will follow these regulations scrupulously. Nevertheless, the well-managed banking institution provides itself with facilities for being certain that they are complied with. Many banks require owners to supply, at their own expense, an official municipal tax and assessment search every three or five years.

During the life of a mortgage the institution will want to make a thorough inspection of a building, inside and out, at least once in three years, and also to obtain a reappraisal. Many banks, indeed, take such steps at more frequent intervals. In addition, properties should be similarly examined before a maturing mortgage is extended, and the loan adjusted to meet changed values.



Let Punched Cards serve YOUR MODERN TRUST REQUIREMENTS

Detailed tabulated information regarding the current status of your trust business is quickly obtained with punched cards. Here is the ideal method of securing the comprehensive data so necessary to modern Trust Requirements.

By this method you can obtain automatically, from current records, the various reports and schedules required for:

Customers' Statements	Court Accounting
Investment Division Analyses	Audits and Examinations
Income Collection Procedure	Trial Balances
Income and Property Tax Accounting	Permanent Accounting Records

Officers and operating division executives are provided with schedules containing any or all of the minute account and security information which has been recorded in the cards. Required information is furnished with gratifying speed and in the most convenient form.

The punched card method enables you to maintain a single set of accounting records which are capable of preparing information and reports generally secured from a variety of duplicated records set up for specific purposes.

Don't miss this DEMONSTRATION

See the IBM punched card method in action, Waldorf-Astoria, New York City. February 9–10–11.

For Further Information

IBM Branch Offices are located in principal cities. Your nearest IBM representative stands ready to give you detailed information and close cooperation at any time. Get in touch with him today.

INTERNATIONAL BUSINESS MACHINES CORPORATION

General Offices
270 Broadway, New York, N. Y.

Branch Offices in
Principal Cities of the World

An Editor Defines Public Relations

"NOT to mention any names," said the financial editor of a large eastern newspaper, "two banks in our town have made considerable headway during the past few years, and they happen to be those which have been most friendly with the press. I wonder whether it's entirely a coincidence.

"Neither bank is what the reporter calls a 'publicity hound'. But both distinctly appreciate the value and methods of proper publicity. At one bank, for instance, whenever a news event develops the president makes it a point to give us—all the papers, I mean—advance information, explaining the whole announcement in detail and making sure that we understand.

"What happens? Well, we go back to our offices and write intelligent, accurate stories, and our readers—the bank's customers, actual or potential—have come to know a great deal about what that bank is doing.

"Several other banks in our city have made no move whatsoever to cooperate with the papers. One of them answers questions with the Yes and No formula. The president of another says, courteously enough, 'I prefer to say nothing'. The heads of the others flatly decline to talk. That's their own business, of course, and I'm not saying it isn't good business; but it isn't good public relations. And although maybe I'm not well enough posted to comment, these banks appear to be standing still.

"It would seem to this casual observer that banks should take advantage of every opportunity to fatten the good will account through the newspaper columns. Few of them seem to do so."

COMMUNITY LEADERSHIP

A SOUTHWESTERN paper's business editor says that much prestige was lost during the depression when banks and bankers became inactive in civic and business leadership. The problem facing financial institutions in that community at present, he believes, is to reestablish this leadership, not only as regards the banks themselves, but more especially their officers and directors as individuals. When this is accomplished "the banks will have the most effective kind of publicity and their public relations problems will be pretty well solved."

S.E.C. TO HARVARD

James M. Landis, head of the Securities and Exchange Commission, leaves that post September 1 to become dean of the Harvard Law School

KEYSTONE

The Railroads Help Business

REASONS why the capital goods or heavy industries are expanding have much to do with the revival of railway activity. Larger earnings mean increased expenditures for maintenance and equipment, and this means more business for everybody, including the railways, since much of the outlay is for improvement in service.

In the trans-continental service, for example, the Southern Pacific, the Chicago and Northwestern and the Union Pacific lines announce that they have combined to buy two lightweight, streamlined trains driven by Diesel electro-locomotives more powerful than any in service. The trains will each be almost a quarter of a mile in length, will be wider than the present standard equipment, and will have innovations and refinements never before placed on similar trains. They will include 17 cars, all air-conditioned with individual heat control, and have 50 per cent more capacity than the trains they will replace. The trip between Chicago and the Coast will be made in 39¾ hours.

The Southern Pacific on its own account plans to spend at least $16,000,000 in 1937 on modern streamlined power equipment, while its current appropriations for new and modernized cars and locomotives total around $41,000,000. The latest authorization includes the purchase of 28 steam locomotives, 14 of which will be streamlined and designed for passenger service; 2,725 new freight cars; 41 new passenger cars, all of the lightweight modern type; and the air conditioning of many trains. The appropriations made do not include expenditures for rails and track equipment which amount to $5,890,000 additional.

Expenditures of the Great Northern Railroad this year along similar lines will include $6,500,000 for new rolling stock; the rebuilding of approximately 1,100 box cars at a cost of $2,750,000; purchase of new rails and track fastenings, $1,750,000; regular maintenance of equipment, $12,000,000; and maintenance of way, $10,400,000. The new rolling stock will include air-conditioned equipment.

STEEL GETS A BOOST

SOME of the reasons why the steel industry has also been looking up are to be found in current railway orders. The Chicago, Milwaukee and St. Paul has ordered 30,000 tons of rails and 32,000 tons of track fastenings. The Erie has ordered 21,333 tons of first quality steel rails; the Missouri Pacific, 33,950 tons; the Wabash, 15,000 tons; the Kansas, Oklahoma and Gulf Railway, 7,000 tons of rails and a corresponding amount of fastenings; and the St. Louis and San Francisco applied to a Federal court for permission to buy new rails, track materials, and considerable quantities of material for new bridges, buildings, ballast, signal equipment and some rolling stock. The Chicago, Burlington and Quincy and the Chicago, Rock Island and Pacific are building new rolling stock of the latest patterns. The Chesapeake and Ohio has ordered 2,000 freight cars to cost about $5,000,000 and the Bangor and Aroostook has been reported in the market for considerable new passenger equipment.

These orders run into large figures, but perhaps the most significant point is that they come from roads all over the country.

Real Estate

BY RICHARD A. BOOTH

Assistant Treasurer, Springfield (Massachusetts) Five Cents Savings Bank

THE care of properties scattered over the relatively wide local area in which our integrated real estate department normally functions presents varied problems of maintenance, particularly when only a few buildings are large enough to have resident caretakers.

One method of procedure, of course, is to wait for complaints from tenants, but we prefer a more positive system. We have adopted a monthly inspection plan whereby one man able to make all minor repairs looks over each property, interviews each tenant, makes small repairs himself, and reports to us all others that are necessary or desirable. He is required to make complete records of his activities on large cards which record progressively a series of inspections.

This procedure is liked by the tenants who see the bank's interest in maintaining their quarters and respond by showing more interest themselves. Likewise, savings are effected in such items as water bills and smaller costs for other repairs, the need for which is discovered before conditions have become more serious.

THE COORDINATOR

GENERAL maintenance and labor are under the direction of the assistant to the department manager, to whom requests for repairs are referred and who approves orders for work or materials. He coordinates all activities in this connection. At his disposal is such reference material as the credit standing of tenants, a file of repair and purchase orders so that frequency of repair or redecoration can be accurately determined, and cost cards, which permit a check against average expense.

Our maintenance staff is conducted on what we call a minimum basis. Our policy is to make such repairs as can be handled without too much investment in equipment, and then only if they can be done to better advantage by us than by outside contract. Such jobs as plumbing and electrical work are not attempted, chiefly because considerable technical skill both for mechanic and supervisor is required, and because a large proportion of such work is emergency in character. It is customary, except on the smallest repair jobs, to get

Routine

several estimates. All other things being equal, the low figure is accepted.

High standards of both labor and material are maintained by frequent inspection of completed work. On work done by the bank's employees an exact cost control is kept, and all time, material and overhead are charged to each job. Keeping such cost records permits accurate comparison with outside contract figures and requires a competent maintenance foreman. On any work of consequence independent contractors bid against our foreman's estimate. This often results in the work being independently done under contract, or in the discovery of some factor which had previously been overlooked.

With such a general policy it seems unwise to employ expert workmen without having high standards for materials. It can not be too often reiterated that repairs, when made, are of as nearly a permanent character as is possible. On the practical theory that one of the prime reasons for foreclosure is poor physical condition, a policy that allows any property to stand in that condition after acquisition is fallacious. Definite decision to repair, demolish or sell at sacrifice is necessary. Obviously, the time element enters to the extent that when foreclosures are heavy it is not possible to do at once as much as is desired, but it is the aim to lay out a definite program for each property.

NUMBER THE PROPERTIES

IT has been difficult to devise a bookkeeping procedure which would provide sufficient collateral information to be of real value and still would not make undue demands for small detail. Since certain requirements make machine posting to journal and ledgers impossible, much handwork is eliminated by numbering all properties. Payments are made by check, showing accounting distributing, and carbon copies are used as posting tickets. All receipts are in duplicate; here, also, the carbon is used for posting. Vouchers are numbered and so filed.

A visible index system with movable signals is employed for the rent ledger, allowing unpaid accounts to be quickly identified. Great variety in types of property makes expense distribution difficult so that only simple distribution is attempted. Altogether, the bookkeeping procedure appears to grow and change. Certainly, we are not yet entirely satisfied.

Air Conditioning

takes the guesswork out of Summer Cooling

At last you can buy Air Conditioning on a sensible business basis

Hot summer weather is ahead. Of course you're thinking of air conditioning. Naturally it's the cost you think about first. That's why you'll want to get the facts about Frigidaire *Controlled-Cost* Air Conditioning.

What does *Controlled-Cost* Air Conditioning mean?

For one thing it means more cooling per kilowatt hour. Also, it means an absolute balance between the refrigeration units (condenser and coils). Hence, less operating cost.

But that is only part of the money-saving story of Frigidaire *Controlled-Cost* Air Conditioning. Its greatest economies are due to the fact that it can always be made to fit your particular job *exactly*.

You pay only for what you need

Practically no two stores or buildings are alike in size, or in the conditions that concern air conditioning. With old-style cooling apparatus, you often get either too little cooling action or too much. Then you get a poor return on your investment or pay far more than you should to operate the system.

Delco-Frigidaire engineers can fit your needs exactly . . . *and tell you in advance how much your air conditioning will cost.* For Delco-Frigidaire is more flexible and offers a wider selection.

The first cost of Frigidaire *Controlled-Cost* Air Conditioning is reasonable; and, because you know what it will cost to operate, you're not buying guesses. You're buying air conditioning on a *business* basis.

Why General Motors' experience saves you money

The basis of most summer air conditioning is electric refrigeration. General Motors has built more electric refrigerators than any other organization. General Motors developed Freon, the safe cooling liquid that revolutionized the industry. General Motors developed the Finned Cooling Coil. General Motors pioneered the first self-contained air conditioning units for homes and offices.

This leadership in ideas, and in applying ideas, has created *Controlled-Cost* Air Conditioning. So, when you plan the air conditioning system you need next summer, consult Delco-Frigidaire, Conditioning Division of General Motors Sales Corporation. Get the benefit of advice from the organization that discusses *all* costs *frankly* and has the right equipment at the right price.

Get the Facts

You will find a Delco-Frigidaire engineer deals in facts. He looks at air conditioning from your viewpoint. He will show you how you can best make this great profit-producing investment. And it costs nothing to get the facts. Just mail the coupon today.

SAVE MONEY
by buying now!

The big rush for air conditioning is starting. Right *now* you can save important money by getting in ahead of the crowd. It will pay you to get in touch with Delco-Frigidaire *immediately*.

***Get the facts about Frigidaire* Controlled-Cost *Air Conditioning for* BANKS**

Hundreds of banks throughout the country found that Air Conditioning earned money for them last summer. Get the whole story! Get the facts about Frigidaire *Controlled-Cost* Air Conditioning. Mail the coupon . . . *today!*

MAIL THIS COUPON TODAY!

Delco-Frigidaire Conditioning Division
General Motors Sales Corporation
Dayton, Ohio, Dept. B-2

I want the facts about *Controlled-Cost* Air Conditioning. Please send me the complete story by return mail. I am obligating myself in no way at all.

Name ____________________

Address ____________________

City and State ____________________

PRODUCT OF GENERAL MOTORS

Banks Have a Story to Tell

"GOOD advertising," says a California journalist in commenting on bank public relations, "is one of the two keys which will give a banking house direct access to the treasure within the safety deposit box of public goodwill. It is the most important key. The other key is the maintenance of frank, honest relationships with that part of the press which handles business and financial news.

"Above all, the two keys should not be confused. Too many bankers feel that their public relations activities are a failure because they cannot get free space in financial news columns for material that should be inserted as paid advertising. An advertising manager or agency worthy of hire will steer the bank executive along the right track."

American banking, this newspaper man observes, has a story to tell the public.

"It should," he says, "be told cooperatively through advertising, after American bankers agree on what the story is. The best brains in American advertising should be put to work on it."

The newsman—he is a financial editor—finds that although many banking leaders believe "something should be done" about public relations, they feel "the banking business stands on such a lofty pinnacle of dignity and ethics that the subject may be approached only after a long period of agony and prayer," and that the profession "embodies such unique and unusual features that all ordinary approaches to the public mind are closed."

"Meanwhile," he continues, "the more progressive and forward looking banking institutions, including some of the most dignified and highly ethical, have been moving into the public relations field with great success. It is gratifying to note that California banks were among the first in the country to realize there is nothing mysterious about bank advertising and publicity, and that their common sense attack on the problem has brought returns not only in the form of earnings, but also in enhancement of that mighty asset known as goodwill.

"What should be done by the banks to improve their public relations? This observer finds it difficult to determine why the banks have any different problems in this respect than have the department stores, the automobile manufacturers, the steel mills, packing houses, or utilities. None of them has a question which cannot be solved satisfactorily by the right sort of advertising manager or advertising agency."

PRESS CONTACTS

A FINANCIAL editor of an eastern newspaper suggests that what the banks in his community need is "good public relations men whose duties, along with other work, would be to meet the press and give up-to-the-minute news and views that would be of interest to the people who read the financial columns of the newspapers."

Most banks, says this journalist, are trying to study the problems of business men and to cooperate with them. He adds:

"Now is the time to study individual cases. In a bank whose clientele consists of farmers the contact man should have a first-hand knowledge of the farmer's problems. In each institution there should be someone who knows the needs of the customers the bank serves."

Personal Loans

"THE extension of personal loan departments in commercial banks and the organization of innumerable corporations chartered to lend on paper not backed by collateral security are developments of recent times in contrast with conditions, not so far remote, when a borrower could not find a lender willing to listen to his story. Banking institutions broadened the personal loan field because they had much cash that could not otherwise be put out at profitable terms.

"Profits of 6 per cent and more were to be earned by discounting individual notes with one or two indorsers; the business grew until, in quest of more customers, loans were offered without indorsers. The man who has a job has now open to him a great number of willing lenders, provided no judgments stand against him. So, also, is his credit really recognized when he goes to buy goods sold on the installment plan.

"The growth of the credit union has kept pace with the personal loan development. This is a sort of mutual help system composed, in its largest units, of employees in government service. Stockholders are generally limited to public employees and loans are made only to individuals on the public pay roll. A requirement that the indorser shall also be a person on the pay roll is usual in most credit unions. Groups of Federal employees all over the country have been formed for this purpose."—From an editorial in the New York *Sun*.

REPRESENTS PANAMA

Senor Augusto Boyd is the newly accredited Minister of his country in Washington

HARRIS & EWING

A Bank Audit Program

SOME suggestions and precepts on auditing are offered in the foreword to a booklet published by the Chicago Bank Auditors' Conference.

The pamphlet itself is a manual of practical auditing procedures applicable to all accounts on a bank's statement, compiled after extensive studies of bank methods. The material appeared in the *National Auditgram*, publication of the National Association of Bank Auditors and Comptrollers, of which the Chicago Conference is a member. It has now been reprinted in handy reference form under the title "How to Plan and Execute a Bank's Audit Program".

In calling attention to a number of points about auditing, the foreword says:

"The auditor of a bank should not, under any circumstances, have the authority or exercise the privilege of originating or approving entries, especially when his duties include any of the operating functions of the bank. Limitation of the auditor's powers in this respect is a protection for the bank and the auditor.

"When assigning duties to audit clerks for the execution of the program, consideration should be given to the alternation of duties among the clerks by transfers at intervals. This procedure is as beneficial for the auditor's staff as for the bookkeepers, tellers, remittance clerks, security custodians, and others in the operating departments.

"In many instances it is possible to include two or more functions or accounts in one audit, particularly when an income or expense results directly from the transactions being examined, such as interest on loans and discounts, or exchange, fees and out-of-pocket expense on collections.

INSIST ON PRECAUTIONS

"AUDITORS should continuously observe the degree of precaution exercised by the employees who handle cash, securities and other valuable property, and insist upon the observance of precautionary acts and methods for the prevention of loss.

"The auditor should provide himself with an accurate record of all differences and a control of adjustments in or between the bank's own accounts or customers' accounts. It should be understood throughout his institution that the auditor must be informed of all losses of valuable property or incidents that indicate the probability of a loss or claim against the bank, whether or not the case is covered by insurance."

In planning an auditing program, the manual says, it is "desirable that the auditor chart his course for the year and budget the time of his department so that the maximum amount of auditing is accomplished.

"After listing the accounts and the frequency desired, the auditor may determine the amount of time required for the whole program by indicating the number of hours required for each account from his experience with his particular bank. If the man power of his department is ample for the completion of the program as established, he may proceed to indicate the approximate dates.

"Otherwise, it will be necessary to make adjustments or allowances by decreasing the frequency in certain accounts to bring the time required within the time available."

FOLLOW the LEADERS

La Monte Safety Papers are specified by outstanding business institutions from coast to coast — including 78 of the Nation's 100 largest banks. » » » »

NATIONAL SAFETY PAPER
BANKERS SAFETY PAPER
SAFETY CHECK PAPER
EXCHANGE SAFETY PAPER

GEORGE LA MONTE & SON, NUTLEY, N. J.

Payroll Control

By EDWARD N. HAY

Personnel Officer, The Pennsylvania Company for Insurances on Lives and Granting Annuities

THE payroll in the bank is the largest single item of expense, constituting about 30 per cent of the operating costs of many institutions. It is therefore advisable to have a reasonable control over this item. By its nature, however, payroll is an expense which is difficult to manage. In good times salaries are necessarily increased; in hard times reductions and cessation of increases become the rule. On the whole, the salary of the faithful employee of long service tends to mount, occasionally without regard for the intrinsic value of the service rendered. We sometimes find a senior clerk of long service receiving more pay than a young junior officer of great ability and responsibility.

In some cases there is a tendency to increase the pay of only the key people, leaving the rank and file stationary at low rates of pay. Also dissatisfaction frequently exists among employees because of inequitable distribution of the payroll, some receiving proportionately much more for their services than others bearing similar responsibilities. This is the result of a lack of salary standards for the various levels of responsibility. The introduction of a budget or some other form of expense control does not solve the problem in such a way as to give the full degree of control that should be expected.

FOUR CONTROL METHODS

THERE are four instruments useful in securing control over this large item of expense. These are:

1. A systematic plan of salary determination.
2. Employee ratings or efficiency reports.
3. Payroll summary.
4. Budget.

The first of these is a thorough-going method of salary administration, under which each position is studied and a definite salary value assigned to it. Many of the larger banks follow some such plan. Two neighboring eastern banks, which have adopted an identical plan, have divided all positions up to salaries of about $5,000 into 19 salary classes, each of which has a minimum and a maximum salary. For example, the 6th salary class has a minimum of $75 a month and a maximum of $100 a month, and all positions the importance of which is of about that value are assigned to the 6th salary class. These assignments to salary classes are not made by guess work, but are the result of a careful study of the duties of each position, or a "job analysis", followed by one of several methods of "job evaluation". When positions are thus evaluated they can be assigned to the proper salary class.

The next instrument of salary control is a knowledge of the efficiency of the individual employee. This is a separate thing from the importance of the duties of his position. In other words, there are two elements: the importance of the duties and the way in which the incumbent performs them. These employee ratings are commonly used by the larger banks and by many other corporations. In brief, they are a report on the employee's performance divided under such descriptions as "accuracy", "cooperation", "quality of work", "suitability for possible future promotion", etc. These reports are usually made by the superior of each employee and by at least two others, higher in rank than himself. These three independent opinions, if in agreement, constitute a reasonably satisfactory statement of an employee's efficiency in his job. In awarding the salary increases they are taken into account and they are also of the greatest use in making promotions and transfers.

The third instrument of payroll control is what one bank calls the "payroll summary". This is made up for each department, the first sheet containing the payroll totals of each division, section and unit within the department. Sections are, in turn, broken down into units in some cases. On the pages following these division, section and unit totals, is the complete payroll of the operating department arranged according to division, section and unit, as just described. For example, under customers' ledger section, one bank has eight units, each unit comprising five customers' ledger clerks or machine bookkeepers, together with one supervisor and one assistant supervisor. The salaries of each of these seven persons are stated opposite their individual names and the total for the unit is likewise given.

Salaries of each group of units within a section are added to give the payroll total of that section. The sections in each division are likewise totaled to give the division payroll, and the division totals constitute the departmental payroll total. In the second column are the actual salaries paid in the month of January, succeeding months appearing in successive columns from left to right. Then in the first column is the control figure, known as "standard payroll". This figure for each individual employee is the average between the minimum and maximum salary appropriate to the position held by that employee. The average figure or median is used on the theory that, since employees of longer service would have higher salaries, and those of shorter service lower ones, on the average all employees in the same kind of position have the average annual salary of that salary class. This is therefore assumed to be the ideal or standard salary which should normally prevail. These individual standard salaries are added together to give the salary standard for each unit, section, division and department.

SALARY TREND AT A GLANCE

ONE of the great merits of this device is that after the salary standards have been arrived at by the process of job analysis and salary evaluation previously mentioned, it remains only to place these standards on a columnar sheet for each employee, unit, section, division and department, and then in succeeding columns to the right may be placed the actual payroll figure for each succeeding month of the year. At a glance the salary figures for each month are in sight, for comparison with the salary standard in the first column. This easy way shows not only what the salaries are in reference to the standard, but in which direction salary figures are tending, whether up or down.

The fourth instrument of salary control is the budget. The budget has come to be a common device for expense control, so that detailed explanation is not necessary. It may be worthwhile repeating, however, that the budget is no more than an estimate of income and expenditures during the coming period.

The Average Newspaper Reader Knows . . .

ASKED for his reactions to the general question of the relationship between banks and people, the chief editorial writer of a midwestern newspaper replied:

"The public quickly forgives and forgets. Offhand, I should say that any symptoms of effusive love for the public by the banks would produce reactions the opposite of those desired. The same is true, I think, of efforts to 'sell' the economic value of banks. The average newspaper reader knows what banks do and what they are supposed to be for.

"The institutional advertising that will help the banks is the kind which uses the indirect approach. Of that there cannot be too much, if it is handled intelligently.

"Interesting and informative economic discussion in newspaper ads, plain type and plenty of white space, will serve to make people more conscious of the identity of their interests and those of properly managed banks. This advertising should be regional and localized. It should have a strong historical and community slant. But the part played by banks and bankers in the economic developments should be unobtrusive. It is not necessary to mention it at all. The signature of the bank on the advertisements will put across the desired association of ideas."

The publisher of a prominent and influential newspaper was quite willing to give his views about the public relations of banks. His first point was that events of the past several years had caused many people to doubt whether they would be permitted to borrow money from the banks and that, being fearful of refusal, they were making fewer requests for credit. Thus the banks were losing income, and potential borrowers were letting their businesses suffer. Loans to responsible persons should be encouraged.

The small loan companies, said this journalist, have been actively studying the effects of constructive public relations among the smaller borrowers. Business for these lenders has been good, and some of the banks have gone after their share of it by establishing small loan departments. However, there is room for more aggressive expansion by banking institutions in this field.

ON ADVISORY COUNCIL

Lewis B. Williams, chairman of the board, National City Bank of Cleveland, has been appointed a member of the Federal Advisory Council, representing the 4th District

Motor Truck Equipment Trusts

By M. R. BAILEY

Vice-president, American National Bank, Kalamazoo, Michigan

HARASSED by state taxes and unfavorable public opinion, forced to expand rapidly, faced by unsettled competition and experimenting with equipment, management and routes, the trucking industry for 15 years has been permitted to grow and attempt to establish itself—a utility with no uniform regulatory assistance from Federal or state governments. Only since 1935 when the Interstate Commerce Commission took over the regulation of interstate trucking has there been any concerted movement toward improvement in this industry. As a result this business has begun to see some light. It can seek sound and economical sources of capital. It can justify its existence to its management, its stockholders and its creditors.

TYPICAL TRUCK PURCHASE

THE heavy load of financing which has been carried by the whole industry is perhaps best indicated by the following example of a typical truck purchase made on a 6 per cent interest, 18-months' loan plan, with a 25 per cent down payment:

Cost	$3,000.00
Down-payment	750.00
Unpaid balance	$2,250.00
Interest cost 6%	202.50
Monthly payment interest loss	95.63
Principal repayment	2,250.00
Depreciation 25% per year	1,125.00
	$3,673.13

The total amount repaid under this plan in 18 months equals 122.65 per cent of the total cost of $3,000. This amount must be earned in three-eighths of the life of such a piece of equipment as established by the Internal Revenue Department for income tax purposes.

Although our bank and numerous others have looked askance when asked to assist any trucking company, recently, with the cooperation of a willing and conservative owner, the idea was conceived of working out an equipment trust certificate plan. The consensus of those who consulted on this plan was that an equipment trust issue properly drawn up would relieve the company of some of its interest burden and provide for a less rapid payment for purchases, concentrate its borrowings and collateral for control purposes, provide an obligation attractive to banks and to the public, and furnish a means for a continuous flow of additional capital for future replacements and purchases. The savings under an equipment trust arrangement can best be comprehended by a comparative analysis on the same piece of equipment reviewed above.

Total interest cost	$ 160.31
Principal payment	937.50
Depreciation	1,125.00
Total	$2,222.81

As will be observed, this is 74.09 per cent of the original cost—a reduction of earning requirements by the company during an 18-months' period of 48.56 per cent. As this type of financing has been extended over a three-year period, it provides a period of payment more in conformity with the practical life of the equipment.

SET A PRECEDENT

TO our knowledge no public offering of equipment trust notes had previously been made for a trucking company and the only precedent that could be found was the issue in 1928 of a nationally operating passenger bus line secured by its rolling stock.

The issue created, now entirely sold and in the hands of bankers and the public, is described as a three year, $100,000, 6 per cent, sinking fund serial equipment trust issue, Series A, with provision for subsequent series. The security is a first lien on 285 pieces of equipment computed as to value on the basis of cost plus capital investment less depreciation at $185,353. It was appraised by an independent competent appraiser at $211,740. The collateral is held in trust by a centrally located trust company in one of the larger Michigan cities out of which the company operates. The indenture calls for the payment of interest and $8,500 quarterly. Notes are callable at 1 per cent premium at any interest date. The outstanding notes may at no time exceed 60 per cent of the depreciated value of the security (the company's indebtedness may at no time exceed 50 per cent of the book value of all its assets). The security value or loan ratio is adjusted monthly by payment, if necessary, to the trustee in cash or equipment trust notes for cancellation. Cash so paid to the trustee is held in an "equipment fund" which may be disbursed only for the purchase of new equipment, which then becomes subject to the mortgage lien.

CAPITALIZATION YARDSTICK

THE company agrees to carry complete insurance coverage with principal payable to the trustee. To provide maintenance, repairs and replacements of equipment, the indenture outlines the following yardstick which is used for determining the value at which the equipment may then be capitalized in the trust: Cost to the company, less depreciation (25 per cent for power units and 12½ per cent for non-power units).

Improvements amounting to 50 per cent or more of the depreciated value may be capitalized and the recapitalized value of such equipment depreciated over a corresponding period. As a typical example a $1,000 repair on a piece of equipment originally costing $4,000 made at the end of the third year would be determined by the following formula:

Cost: Period of Depreciation :: Repairs plus Depreciated Value: X.

Applied to a specific case this would be:

$4,000: 4 years :: $1,000 plus $1,000: X or 2 years.

In other words the value of the equipment when the repairs were made at the end of the third year equals $1,000 and could be extended over a period of two years from the date of replacements.

Additional covenants call on the company to pay all valid property, income and other United States, state, county and municipal taxes. Its books of account shall be audited annually by a C. P. A. All mortgaged property is to be kept in good repair and a certified report given to the trustee each month. Load, liability, property damage and $100 deductable accident insurance all satisfactory to the trustee must be provided by the company. All rolling stock shall carry plates in a conspicuous place showing the lien to the trustee. The indenture outlines the usual conditions constituting a default and the remedies.

When Service Becomes Interest

Washington, D. C.

AFTER some 15 months of efforts to reach an agreement in the matter of regulations governing the payment (or rather the non-payment) of interest on demand deposits by banks within their respective membership the Federal Reserve System and the Federal Deposit Insurance Corporation have agreed, and disagreed too. Back of differing provisions of the Banking Acts, or at least differences in the interpretation of these Acts, are differing policies and viewpoints which are as fundamental in some respects as differences in the law.

F.R.S. AND F.D.I.C. AGREE HERE

REGULATION "Q" of the Federal Reserve Board, which is in effect as of February 1, and Regulation "IV" of the F.D.I.C. agree in the provision that "except as hereinafter provided, no insured non-member bank (or no member bank of the Federal Reserve System) shall, directly or indirectly, by any device whatsoever, pay any interest on any demand deposit." Both the Reserve Board and the F.D.I.C. are authorized by law to define demand and other deposits—fundamental definitions of which are included in the law itself. The authority of the F.D.I.C. in this respect is indicated in paragraph 8, sub-section V of Sec. 12B of the Federal Reserve Act which provides that "The Board of Directors shall by regulation prohibit the payment of interest on demand deposits in insured non-member banks and for such purpose it may define the term 'demand deposits'", exceptions to the general rule being those made or to be made by the Reserve Board with respect to member banks.

The Reserve Board's authority in these matters, however, is indicated by the provision in Sec. 19 of the Reserve Act which, in addition to the prohibition of the payment of interest on demand deposits, declares that "The Board of Governors of the Federal Reserve System is authorized, for the purpose of this section, to define the terms 'demand deposits', 'deposits payable on demand', 'time deposits', 'savings deposits' and 'trust funds', to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof."

WHERE THE DIFFERENCE ARISES

THE crux of the issue is the specific provision giving the Reserve Board authority "to determine what shall be deemed to be a payment of interest"—a provision which is not included in the authority given the F.D.I.C. Since the authority given the Reserve Board is specific, counsel of the F.D.I.C. have held that this authority is, by implication, withheld from that corporation; that if Congress had intended the corporation to have the authority to determine what is really "interest" for the purpose of the Act it would have given it specific authority as in the case of the Reserve Board.

At all events the corporation is not willing to take upon itself the responsibility of defining interest for the purposes of the Act. It therefore confines its action to the prohibition of the payment of interest on demand deposits as the term "interest" is defined in the laws of the United States and of the several states, court decisions and the common usage of the term.

On the other hand, the Reserve Board interprets the specific authority given it to define "interest" as mandatory in so far as it may be necessary to effectuate the purposes of the law.

Each paragraph, indeed each sentence, of its new regulation merits careful consideration.

The point of the immediate issue between the Reserve Board and the F.D.I.C. is in the provision which relates to exchange and collection charges. The new regulation declares that "The term 'interest' means a payment, credit, service or other thing of value which is made or furnished by a bank as a consideration for the use of the funds constituting a deposit and which involves the payment or absorption by the bank of out-of-pocket expenses (i.e., expenses arising out of specific customers and definitely attributable to such transactions as distinguished from overhead and general operating expenses), regardless of whether such payment, credit, service or other thing of value varies with or bears a substantially direct relation to the amount of the depositor's balance.

"The term 'interest' includes the payment or absorption of exchange and collection charges which involve out-of-pocket expenses, but does not include the payment or absorption of taxes upon deposits whether levied against the bank or the depositor nor the payment or absorption of premiums on bonds securing deposits where such bonds are required by or under authority of law."

IN THEORY, HIGHER SERVICE CHARGES

THEORETICALLY this means increased service charges for the banks as well as an end to many abuses in free services to depositors. It would place all banks in the same competitive position by compelling, as well as permitting, all of them to make proper charges for services rendered.

Probably it is an unfair assumption but it is charged, nevertheless, that one of the reasons why the Reserve Board has sought uniformity in regulations governing these charges as representing "interest" is its desire to force all banks into the par collection system. On the other hand the Board recognizes certain of these difficulties arising under a uniform regime by the further provision in its regulation that "Notwithstanding the foregoing, the payment or absorption of isolated items of out-of-pocket expense in trivial amounts and not of a regularly recurrent nature, where the charging of such items to customers would cause undue friction or misunderstanding, will not be deemed to be a payment of interest, provided that the bank acts in good faith and does not utilize the absorption of such items as a basis for soliciting accounts or obtaining an advantage over competitors and provided further that the bank maintains and makes available to the examiners authorized to examine the bank a record showing the amounts of such items paid or absorbed by it, the dates of such payment or absorption, and the names of the customers for whom such items were paid or absorbed."

The F.D.I.C. is so far in sympathy with the objects of the Reserve Board that in cases where it becomes apparent that a bank is using its freedom from restrictions with respect to exchange, collection or similar charges to take advantage of its competitors and where the absorption of such charges becomes clearly an abuse it stops the bank from pursuing such policies.

GEORGE E. ANDERSON

Secondary Banking

POLICY loans by life insurance companies have generally been accepted as an important factor in enabling the people of the United States to ride out the depression. However, another side of the matter, now coming up for disposition, has been a source of solicitude on the part of both insurance supervisory authorities and the companies.

State insurance commissioners, in particular, have given the subject considerable investigation. Some are of the opinion that the policy loan privilege has been greatly abused since first written into insurance contracts and they are now disposed to get the insurance companies "out of the secondary banking business".

LEGISLATION PROPOSED

ACCORDING to statements made by Ernest Palmer, president of the National Association of Insurance Commissioners and Director of Insurance in Illinois, several states are now promoting legislation to permit the companies to write ordinary life insurance without the cash surrender value and loan clauses. The object of this legislation, in the view of some supervisory authorities is not only to protect beneficiaries from a reduction of the benefits to be paid them on the death of the insured, but also to protect the latter from his own folly.

The situation responsible for this movement has been built up by two major influences during the past 15 years—"get rich quick" speculation and the depression. In 1911 policy loans and premium notes held by the major companies having approximately 95 per cent of the admitted assets of all American life insurance companies amounted to $523,457,000, 13 per cent of their assets. A large proportion of these advances was in the form of premium notes.

During the boom years 1926–1929 the volume of policy loans and premium notes increased proportionately with the steady rise in the companies' total assets. In 1929 the outstanding volume was $2,139,669,000, or 13.3 per cent of total assets, but the proportion of loans to premium notes had greatly increased and a large part of the money borrowed on policies was used for speculation in securities, with the result that the market collapse brought tremendous loss to the borrowers.

Commencing with 1930 policy loans increased at a rather brisk rate. In 1930 the percentage of all assets of the companies in these loans rose to 14.6, in 1931 to 16.4 per cent, in 1932 to $3,415,310,000 or 17.9 per cent, and in 1933 to $3,419,498,000 or 17.8 per cent. In 1934 there was a decrease to $3,315,000,000, or 16.5 per cent, and in 1935 to $3,221,000,000, or 15.1 per cent. The estimate last December was $3,065,000,000, or 13.4 per cent of total assets.

In proportion to the companies' total assets such advances are now back to the normal established from 1911 to 1928. However, while much of this credit may reasonably be considered as a hangover from the depression the great bulk represents what the Illinois commissioner has called it—"secondary banking."

It is Mr. Palmer's estimate that in the past few years not over 10 per cent of the policy loans granted by the life insurance companies were warranted. "In a considerable number of cases," he says, "the value of life insurance policies went to margin stock speculations which were afterward totally lost. The payments on the radio or the automobile, or some debt that probably should never have been incurred, or in any event should have been met by self-denial and industry, were liquidated by the cash values of many small policies which should have been considered as the family's last resource."

Among other practices he characterized as "far from social" Mr. Palmer put the relief requirement of some agencies "which I am informed refused to grant aid until the life insurance fund had been exhausted. I am reliably informed that certain companies, manufacturing agricultural machinery sold on time, required statements from farmers which provided a blank to show the cash value of life insurance policies and insisted that the farmers avail themselves of such cash values in order to avoid foreclosure of chattel mortgages."

The insurance companies, as a general rule, have not been favorable to these loans, although they are sound as against liabilities and the interest received upon them has been an important factor in maintaining company earnings. In practice, however, the insurers have no choice. Under the policies permitted, and in some cases prescribed by law, the cash value and loan privilege are contractual rights acquired by the holders, and loans requested must be granted. In some cases during the depression these contractual rights of policyholders have led to considerable embarrassment for the companies and have given occasion for their resort to heavy borrowings from banks and the R.F.C.

RESIGNS CHAIRMANSHIP

John G. Lonsdale, chairman of the board of the Mercantile-Commerce Bank and Trust Company, St. Louis, has resigned from his banking position to "take on added duties as co-trustee of the Frisco Railway"

Ninety-Seven Cent a Year Men

WHEN the wheels of the Social Security organization began to turn, it meant nothing at all to Mr. Thaddeus Tee. He was president of a bank which, as an instrumentality of the United States, didn't come under the Act, and he had therefore dismissed the matter from his mind, considering himself and the bank exempt. With a bank president's usual prudence, however, he had set up a reserve on the books for an amount equal to 1 per cent of his payroll, just in case Congress should reconsider the exemption.

Secure in the belief that everything had been provided for, Mr. Tee was surprised when Mr. Addum, the general auditor, remarked: "When would you care to fix up those Social Security forms?"

Mr. Tee frowned. "What forms?" he asked. "We're exempt."

"Yes," agreed Mr. Addum, "quite true, as regards the bank, but I was referring to the subsidiaries—the safe deposit company, our realty company and our printing company. They're not exempt. I know how to handle the salary reports and the employee forms, but what I had reference to was your salary, or rather salaries, sir."

Tee hadn't been in the habit of thinking much about the subsidiaries except when they lost money. He dimly recalled that he had entered their names on his income tax return, and therefore he must have received some income from them.

"How much were my—er—salaries for 1936, Addum?"

The general auditor smiled. "Three dollars, sir; one dollar from each—purely nominal, of course. Naturally the tax will be very small, since 1 per cent of $1 for the year 1937 will be one cent, or three cents for all three salaries—that is, unless we pay the salaries in instalments, in which case the tax would be payable on each pay day—"

"Forget it. It's too trivial even to talk about," said Tee. "Forget the salary, too. Better still, discontinue it altogether. Then you won't have to fill out any reports or pay a tax."

IT COULDN'T BE DONE

"I TOOK that up with our general counsel," said Mr. Addum, "and I'm afraid that can't be done. You render service to these three companies as president and they receive something of value, for which they have to pay value or the contract is void. You recall the wording of the contracts: 'For the sum of $1 and other valuable considerations, et cetera—"

"You mean," interrupted Tee, "that you've got to go through all that silly business for each company, pay a tax on each dollar paid by each company, and—". The president glared at the general auditor, who stood his ground.

"And that," said Mr. Addum, "is not the worst of it. You've got to fill out a Social Security card, giving your vital statistics—not one card for each company, but one card for the three. Then you'll get a number for future reference and future pension claims."

Mr. Addum halted abruptly. He had become accustomed to reeling off the same speech to clerks in the non-exempt subsidiaries, and had grown rather automatic about it.

On his way home that evening Tee stopped at the postoffice. Inside, he

(CONTINUED ON PAGE 78)

(CONTINUED FROM PAGE 76)

waited until the line at the window placarded "Social Security Information" had diminished, and then took his turn before the little grating.

"What provision," he asked the clerk, "is made for persons who draw only a nominal salary? I refer specifically to the dollar-a-year men."

"We have quite a few questions like that," the clerk replied pleasantly. "You'll have to fill out a Social Security card and the company which pays the dollar a year will have to pay the tax on it. But you only fill out one card, no matter how many companies contribute to the salary.

"But," said Tee, "can't the matter just be—er—overlooked? What happens if the dollar-a-year man is just neglected? I mean if his company neglects to report and he neglects to fill out a card?"

"That's out of the question," the clerk continued. "You see under Section 807-C of the Social Security Act the penal section—1114 of the Revenue Act of 1926 was made to apply, and the subject is further covered in Treasury Regulation No. 91. What I mean is that anybody who won't pay a tax, or provide the information called for, is liable to—"

"Yes," interrupted Tee. "Thank you."

The next day he told Addum to go ahead and fix up the reports on his three salaries, and also to get a copy of the Social Security Act. Tee was getting curious to see what happened after he set the wheels of Social Security moving.

At home that evening he began to figure things out with the help of a copy of the Act which Addum had procured. He was just over 50 which meant that if he continued to draw three $1 a year salaries until he was 65 the deductions would be about a dollar, allowing the Government an extra half cent in each of the years when it was impossible to make the tax come out in even figures.

Tee sighed and turned to the financial page of his evening paper. Then a thought occurred to him, and he went back to the Act. Yes, the contribution from salaries was withheld by the paying corporation and the net salary paid officers and employees. Tee experienced a sense of shock as the full significance of that requirement turned over in his mind.

Henceforth there would be no dollar-a-year men, but only 99 cent ones. In fact, by 1949 they would be only 97 centers—mark-downs, like department store basement goods. Another rather pleasant American custom was about to fall before the march of social progress.

F. E. TYNG, JR.

HEADS MANUFACTURERS

William B. Warner, president of the McCall Company, is the new president of the National Association of Manufacturers. He was formerly president of the National Association of Publishers

ACME

Real Estate in

BANKERS throughout the land are heeding the call of public relations more and more. We read reams of advice on the subject. Some authorities are of the opinion that it is among the most important elements in banking. Banks are dealing with the public; they ought to keep their finger on the pulse of the public. They should keep apace with present-day advertising methods; they should see that their publicity is well placed and calculated to interest their customers, now and tomorrow.

Through their real estate the banks may possibly find ways in which better public relations may be built up. We have in mind the case of a large metropolitan savings bank, which has for several years past cooperated with certain charities by donating a vacant plot of land in a highly restricted and fashionable part of the city to the use of the charity for one or two years' time. A small dwelling was erected on the property and admission was charged for the benefit of the charity. In the present case the dwelling was of the pre-fabricated variety and interest was rife as to the future possibilities of such construction.

MANY INQUIRIES RESULTED

THE general picture of the bank's generosity in giving up the use of the land for charitable purposes gave rise to many inquiries as to why anyone should donate such a large plot rent free for so long a time.

The same thing may well apply to unoccupied stores. A bank will make friends by donating such space to a charitable organization which is about to hold a bazaar or a rummage sale. It costs the bank nothing. It may even be the means of showing the space to some interested tenant, who might otherwise have never thought of the possibilities of that particular store.

The real estate departments of the banks are constantly in some sort of trouble with the mortgagors. The latter are slow to understand why they cannot let their interest dates slide indefinitely; they do not see any reason for the bank's denying their application for a reduction in interest; they expect interest on their bank balance even while owing arrears in their own interest payments. The bank's employees and officers have to smooth them down with reasoning and diplomacy, a very difficult and distasteful job at best, and often an entirely unsuccessful one.

THE MUCH BUFFETED PROPERTY OWNER

THE lot of the average property owner has not been a happy one since 1929. He has seen a steady increase in vacancies, with an equally steady decrease in rentals. His income has shrunk to such an extent that he has neither the heart nor the wherewithal to make needed repairs. He hangs on with all his strength, hoping for better times.

Now, those times are almost here. Rents are increasing, houses are filling up. As the pay envelopes grow fatter, so will the landlord's smile grow wider, and he will make his quarterly visit to the bank with a feeling of ease and security, instead of a vague apprehension as in former years.

And the expected boom in real estate will result in many economies for the banks in their real estate departments, which have grown by leaps and bounds, occupying space otherwise rentable and entailing salary lists which would stagger the old time bankers.

Just because we are climbing out of the slough of the depression is no reason why any bank should lose sight of

Public Relations

the importance of their public—and customer—relations. The public is always there, always a customer. Many things are still a mystery in the banking business. The public likes to read about those institutions with whom it is in close business relationship. The public wants to know all about the F.D.I.C. and many of them are curious about other governmental activities in the business and banking world.

It is up to the banks to put themselves before the public in the very best light. And their real estate departments can help them in many ways—by meticulous explanation, by courteous attention to complaints, by satisfactory adjustments of misunderstandings. A polite and friendly letter from an officer of the bank often tends to straighten out strained relations. A talk across the desk is even better. An intelligent piece of advice is seldom amiss. Interest in the bank's customers is never a waste of time.

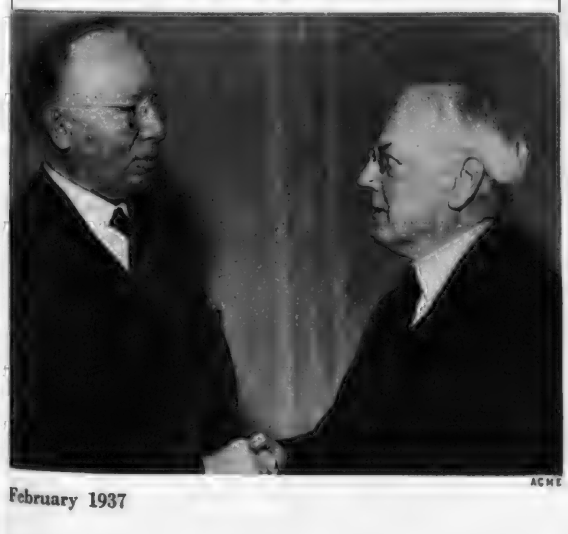
In fact, interest in one's fellow men is only too often missing. It seems to be a trait in human nature that we are more interested in ourselves than in the person sitting across the table. Most of us are guilty of this. The banks always have been—quite unconsciously, it is true, but indubitably so.

Therefore that new phase of business life known as Public Relations has sprung up. Hard to define, of uncertain results, but worth while just the same. The officers of the bank should practice it, the staff should ever have it in mind. The junior officers and new account department are, in particular, those who should be always conscious of its importance, and abreast of them the real estate department, with its constant contact with the bank's customers, its all-too-many chances of misunderstanding, and with its many opportunities of making friends for the institution which it serves.

KENNETH MURCHISON

DR. SPRAGUE PRESIDENT OF ECONOMISTS

At its recent meeting in Chicago, the American Economic Association elected as its new president Dr. O. M. W. Sprague of Harvard University (right, in the picture below), who succeeds Dr. Alvin Johnson (left). Dr. Sprague was formerly adviser to the Bank of England and subsequently to the United States Treasury



ACME

Life Insurance Policies as Collateral

DURING the past few years many individuals have found it necessary to borrow money on their life insurance policies. Although some have gone direct to the insurance companies for loans, others have turned to their respective banks for this service. Also, banks have found it necessary to take insurance policies as additional collateral to bolster deficit loans. The numerous insurance questions that have arisen because of the increase in the volume of bank loans secured by insurance policies have demonstrated the need for a more comprehensive knowledge on the part of the average banker of the proper method of handling insurance loans.

In accepting policies as collateral some banks have adopted the procedure of having themselves named as beneficiary while others prefer to take assignments of the policies instead. The writer prefers the latter practice. As beneficiary of the policy a bank obviously has no interest in the policy other than in the death benefits. Under a proper form of assignment, however, the bank obtains additionally the right to receive dividends, to borrow against the policy to pay premiums, to surrender the policy for its cash surrender value (in the event of a default in the bank's loan) and to receive any disability benefits which may become due on the policy. It is important to examine the assignment form to ascertain that all of the above rights are accorded therein to the bank.

Where there is a named beneficiary, other than the estate of the insured, it is recommended that the consent of this beneficiary to the assignment be procured. This is accomplished by having the beneficiary join in the execution of the assignment. Such consent is necessary because many courts have held that if a beneficiary has not joined in the assignment, all that the assignee has procured for himself are the benefits of the policy during the lifetime of the insured, and that upon the death of the insured the beneficiary takes the full proceeds of the policy free and clear of any claim of the assignee.

If the beneficiary is a minor, it is important that a change be effected in the beneficiary so that either an adult or the insured's estate be named instead, since a minor has no legal capacity to execute

REPRESENTS 2D DISTRICT

Winthrop W. Aldrich (below) chairman of the board of the Chase National Bank, has been elected to the Federal Advisory Council. He succeeds James H. Perkins, chairman, National City Bank, New York

By **RALPH H. MACKINNON**

Legal Department, Manufacturers Trust Company, New York

•

a binding contract and since it is voidable at the minor's option.

If there are contingent beneficiaries named anywhere in the policy, the consent of all of them should be obtained to the assignment, and, to avoid unnecessary trouble in this connection, contingent beneficiaries should be first eliminated from the policy before accepting the assignment.

Many courts have ruled that a beneficiary stands in the position of a surety after consenting to the assignment of the policy, and the rules of suretyship have frequently been applied in cases where a contest has arisen between the bank and the beneficiary. For example, an extension of time given to the bank's debtor, a release of a co-maker or a release of other collateral held by the bank may well result under some decisions in releasing the proceeds of the policy either entirely or to the extent by which the beneficiary has been injured by the act complained of. It is therefore recommended that in addition to obtaining the beneficiary's consent to the assignment, a special agreement be entered into between the bank, the debtor (the insured) and the beneficiary which should provide for the consent of the beneficiary to the various transactions and events usually attending bank loans.

Too much emphasis cannot be placed upon the importance of examining the insurance policy itself for special features which may seriously affect the bank's rights. For example, a policy may provide that upon the death of the insured the proceeds of the policy shall be payable in monthly instalments over a long period of years. This provision should be eliminated before the assignment of the policy is taken. Then again a policy may contain what is known as an automatic premium loan clause under the terms of which the insurance company is obliged to make a loan automatically against the cash value of the policy in the event the insured fails to pay the premium. Such a clause often results in eating up all the cash value of the policy without any knowledge thereof on the part of the bank.

The insurance policies will indicate the necessary procedure for the filing of the assignments with the insurance companies. The policies usually provide that assignments are to be executed in duplicate and that both duplicate and original be forwarded to the insurance company, which retains the original and returns the duplicate with its acknowledgement of receipt.

HEADS TRADE BOARD

Kenneth S. Templeton has been elected president of the Chicago Board of Trade. An exchange member since 1911, he is a member of the firm of J. S. Templeton's Sons

WIDE WORLD

The Bond Account

WILLIAM R. WHITE, New York State Superintendent of Banks, in his annual report to the legislature called attention to the problem faced by banking institutions in maintaining earning power.

Cash and investments of banks and trust companies in the state, he said, increased nearly four times as much as loans and discounts for the year ended September 30.

"Hence it is apparent," Superintendent White continued, "that, for the time being at least, only a small portion of the large amount of new funds available for investment can be employed in a field which in the past has been a major source of income. Bankers are therefore compelled to fall back upon their bond portfolios for earnings and are also turning their attention to the comparatively new fields of service charges and personal loans.

"The bond account in most commercial banks and trust companies now represents the chief source of operating income. However, while most high-grade bonds are selling at a premium, it is gratifying to note that the bankers of this state are refusing to lower the quality of their investments in order to increase earnings."

The department's records showed, Mr. White said, that on the average well over 80 per cent of securities held were United States Governments, municipals and bonds in the first four grades. These holdings, for the most part, were well diversified, Government bonds being the only class representing more than 20 per cent of all securities held.

"It is on the question of timing maturities that the greatest differences of opinion occur," the report asserted. "Better returns can, of course, be derived from long term bonds than from those due within 10 years. If the rates rise, however, market losses could easily exceed the added income from the higher yields. With authorities of equal prominence in disagreement about the probable duration of low rates, bankers face a difficult problem in charting their investment program. In our opinion none of them can be accused of undue conservatism who maintain a substantial amount of short term issues in their portfolios."

CHIEF OF SECRET SERVICE

Frank J. Wilson (below) has been appointed by Secretary Morgenthau to head the United States Secret Service, succeeding William H. Moran, retired

HARRIS & EWING

CALENDAR—Continued from Page 49

F. Zimmerman, president, First National Bank of Huntingdon, Huntingdon, Pennsylvania; and D. J. Needham, General Counsel, American Bankers Association, secretary.

STATE LEGISLATIVE STUDIES

THREE important studies dealing with current state legislative matters have recently been issued by the State Secretaries Section and the Legal Department of the American Bankers Association.

A "Survey of Public Depository Laws" for use of state secretaries and state association legislative committees, compiled by the Department and issued by the Section, calls attention to the probable necessity in many states for legislative action to amend public depository laws, since banks under Federal jurisdictions will soon be prohibited from paying interest on public demand deposits. The survey analyzes the situation in each state. Copies are available at $1 each from Frank W. Simmonds, Secretary of the Section, at the Association's headquarters in New York.

"State Secretaries Section Bulletin No. 13" presents a study of the Uniform Trust Receipts Act and state banking boards. The material was gathered by C. C. Wattam, secretary, North Dakota Bankers Association, as Chairman of the Section's Committee on State Legislation, and has been sent to all state secretaries at the direction of Theodore P. Cramer, Jr., President of the Section.

"State Secretaries Section Bulletin No. 14" presents the returns of the same Committee's recent legislative questionnaire as summarized by W. Gordon Brown, executive manager, New York State Bankers Association. This bulletin deals with the manner in which the various state associations present to legislative committees information on legislation affecting banks and also arguments pro and con on measures attempting to regulate or prohibit service, float, or exchange charges.

300,000 COPIES

THE "Statement of Principles of Commercial Banking", prepared by the Bank Management Commission, American Bankers Association, continues to enjoy a brisk circulation. Approximately 300,000 copies, up to the present time, had been ordered by banking institutions for distribution to their customers and friends.

The Statement has been widely commended as a means for increasing the public's understanding of the services and responsibilities of the commercial bank.

HOUSING ACT QUESTIONNAIRE

TO ascertain sentiment of bankers regarding continuation of Title I of the National Housing Act, which is due to expire April 1, the Committee on Banking Studies of the American Bankers Association has sent out a questionnaire to institutions which have operated extensively under the Act, it is announced by Wood Netherland, Chairman of the Committee.

The questionnaire is being distributed through city clearinghouse associations throughout the country, comprising about 1,800 member banks.

The attitude of bankers who have had experience with Title I loans will be a determining factor in framing new legislation or extending the present law, Mr. Netherland states. The law provides for the insurance of lenders against losses up to 10 per cent of their aggregate of such loans made for the modernization or repair of homes up to $2,000, or business properties up to $50,000.

The Bank Down the Street

WE have come to realize the true value of deposit analysis, conservative loan and investment policies, adequate reserves, deposit insurance, etc., as prime factors in the safe and sane management of a bank. While it is also true that a bank is only as strong as the number of its satisfied customers, to maintain good will just how far should the average bank extend itself in serving the public? When it cannot offer a desired service should it follow the policy of recommending its competitors who handle such business?

LOAN CLERK'S DILEMMA

SUPPOSE a loan clerk must decline a small personal loan to a customer who has in the past maintained profitable accounts with his institution. In doing so the bank employee is fully aware that while his bank does not conduct a small loan department, a neighborhood bank has one and would be only too glad to take care of this depositor. Should the clerk send the customer to this bank, knowing that his other accounts would probably follow, since it is only natural that he would want to improve his position as borrower by giving the bank his other business? Or would it be to the best interest of the clerk's bank to decline in the "approved and proper manner", and let it go at that?

ONLY ONE COURSE OPEN

IT would seem that the only course left open would be to advertise our competitors, as it were, since the result is inevitable. The fact that we are very courteous in refusing the loan does not remove the customer's need for it. As soon as he leaves our doors he will immediately be contemplating other possible sources, and sooner or later some friend will suggest another bank. Our best possible chance of retaining his good will, and possibly some of his future business, would be to send him away with the thought that while we could not serve him, we took care of his needs by recommending someone who could.

Let us then supplement that "How and where to say no", with "But I know how and where".

HARRY C. J. BLAIR
The Beneficial Saving Fund Society of Philadelphia.

Confidence, Understanding

A NEWSPAPER editor in the South observes that whereas formerly the chief public relations problem of the banks in his community was to maintain confidence in their safety, today it is to maintain confidence in their service.

The people, he says, no longer doubt that the banks are safe; they have the fullest trust in their security. Nobody is afraid of losing a dollar of deposits through the failure of any bank. Government guaranty of deposits has banished that fear.

But, this editor feels, the strict regulations of banks are tending to undermine the confidence of people in the desire or ability of banks to render maximum service to depositors and the public.

Under these regulations the banks of his city are not permitted to pay more than 2½ per cent interest on time deposits; they are actually paying 1 to 2 per cent. The combined city and county tax on bank deposits is 1.75. This creates a real problem for the bank that is anxious to keep the confidence of depositors in its willingness and ability to serve them.

"Our banks," says this newspaper executive, "will soon be required to charge all depositors with the whole expense of handling their accounts. This, it seems to me, will make it increasingly difficult for the banks to retain the good will of their depositors."

THE PUBLIC'S FRIENDSHIP

IN another editor's opinion the chief public relations problem of the banks is to get closer to the public.

"For too long," he says, "the average person has leaned toward the idea that the bank is a depository for his funds, that the bank's business was confined to individuals of large financial means, and that it did not care to be bothered with small loans.

"Although those closer to the true situation know that this was never true, the future of the small loans campaign will depend to a large extent on the breaking down of these impressions.

"In getting closer to the public the bank may well take a tip from other lines of business where efforts to please are often put ahead of the immediate sales prospect."

Effective Bank Advertising

THE bank officer and his visitor were discussing bank advertising.

"What," asked the caller, "has been the most effective idea you've used during the past month?"

"Well, I should say," replied the banker, "that—".

He was interrupted by a young man whose eager entry from the outer office suggested that he bore important tidings.

"Excuse me, Mr. B.," said the arrival, "but I thought you'd like to know about those blotters—you know, the ones with the copy about home financing. The mortgage department sent out 10,000 of them to a selected list of home owners, and so far this morning we've had five applications for mortgages. I think that idea was O.K."

"Yes," agreed the banker, "apparently it was." Smiling, he turned to his guest: "Does that answer your question?"

A southern bank has found that advertisements explaining the necessity for credit information have been particularly effective. Getting borrowers to furnish adequate credit data, it holds, calls for all the ingenuity and tact a banker can muster, if he is not to ruffle a customer or appear to reflect on the applicant's credit standing.

Accordingly, the bank believed that the best method was to explain the need for this information in terms of advantages to the borrower. Its advertisement pointed out that guesswork was eliminated when the bank had all the facts; that full information assured fair consideration of loans and removed the possibility of hasty judgments and preconceived opinions; that the borrower's credit was protected against hearsay information and rumors; and that by giving full facts directly to the bank the borrower could assure an accurate presentation of his case.

Personal loan advertisements have been bringing results. A western bank carries an ad on this service in the classified pages of the local newspapers. This method has been successful, the bank reports, because the copy mentions the rate of interest and because the advertisement appears in a spot where it will be found by people needing money.

IN U. S. STEEL POST

E. M. Voorhees, vice-president and director of Johns-Manville Corp., has been named vice-chairman of U. S. Steel's finance committee, effective April 1

PICTURES


American Agency System
The Commercial Union Group not only believes in the American Agency System, but supports it 100%
COMMERCIAL UNION GROUP
ANCHORA SALUTIS
COMMERCIAL UNION ASSURANCE COMPANY, LTD
AMERICAN CENTRAL INSURANCE COMPANY
COLUMBIA CASUALTY COMPANY
THE PALATINE INSURANCE COMPANY, LTD.
THE OCEAN ACCIDENT & GUARANTEE CORPORATION LTD
THE BRITISH GENERAL INSURANCE COMPANY, LTD
UNION ASSURANCE SOCIETY LIMITED
THE COMMERCIAL UNION FIRE INSURANCE COMPANY
THE CALIFORNIA INSURANCE COMPANY
(STOCK COMPANIES)
These Companies write practically all forms of Insurance, except Life

Prompting Forgetful Borrowers

MANAGERS of personal loan departments have all probably had the experience of a small percentage of their loans becoming somewhat slow. Although such paper still is perfectly good, payments are always delinquent, entailing a great deal of the clerks', as well as the officers' time, in the form of letters and 'phone calls.

A system of handling these loans, which has been found to be expedient, is to put them all on a weekly basis. Ordinarily most of the personal loan borrowers receive their pay weekly, with perhaps a small number, mainly white collar workers, being paid semi-monthly. It is manifestly much easier, as well as quicker, to follow loans on a weekly basis, than on a monthly payment plan. It is true that weekly payments require more postings as the payments are made, but it avoids congestion at the windows on definite dates during the month. The ledger cards are filed on the payment days of the week, Monday, Tuesday, etc., and, as delinquencies occur, the cards are transferred to the past-due file. This brings the accounts to the attention of the officer in charge, the day following.

Experience has taught us that when a default occurs upon a monthly note, the borrower requests time to pay up his arrears. This results in the loan being two or even three months slow by the time it is referred to the manager, unless delinquencies are promptly reported.

How shall such loans be put on a weekly basis? This is merely a matter of educating the borrowers to do so. For instance, a borrower requests that inasmuch as he is paid only once a month he would like to make his payments monthly. He is told that his request can be granted, but that he must make his first payment three weeks in advance. He then continues to make all subsequent payments at monthly intervals, in advance.

The co-makers, or the surety upon the note, also wish to be apprised of the fact that payments are becoming slow. At times it is rather difficult to withhold information from the endorsers and, at the same time, give the borrower an extension of time to make good his arrears.

EFFECT OF "THREE WEEKS"

THREE weeks has a certain psychological effect upon the debtor; it seems to him more than one month; in other words, he is three payments behind, not one. If, at the end of that time, it has been found that little effort has been made to pay, a form notice is sent to the endorsers. This usually makes payments more punctual.

The payments are receipted upon a ledger card which is kept in a central file. The reverse side of this card is used for collection notations, such as: form notices, letters sent, calls made, judgments, duplication of loans in other banks, etc.

If the loan has proved too troublesome, the bank will attach a symbol in the form of a rubber stamp on both the face of the ledger card and to the borrower's application. This will serve as a beacon to use extreme caution, should an application be offered the banker containing the same name, at some subsequent date.

E. C. JOHNSON
Assistant Comptroller,
Bank of Rockville Center Trust Co.

How to Sell Real Estate

HOW can a bank retrieve its investments represented by foreclosed real estate?

"Sell," is the obvious answer.

Looking over our Westchester holdings last Spring, we found we had 90 homes, leased under terms providing for the tenant to vacate in the event of sale, which were unoccupied or about to be unoccupied. We selected these homes for a test campaign, decided to prove definitely to ourselves whether there really was a market for high grade property of this type in the New York metropolitan district. Many real estate authorities said there was not. But we were willing to spend a fair amount of money to find out.

Each selling price determined upon was the result of a market as well as an investment viewpoint. Some homes were priced slightly below our equity, some slightly above. But in all cases we could go to the prospective buyers, tell

By ROBERT W. SPARKS

Vice-president, Bowery Savings Bank New York

•

them these homes were selling at "bottom-of-depression prices" and give them facts and figures to prove it.

Our first field, naturally, comprised tenants in homes we planned to sell. We knew these tenants liked the homes, otherwise they would not be living in them. We regarded them as our first list of sales prospects.

Each tenant received a letter telling him that we planned to sell his home, that we wanted to give him a chance to buy it at a bargain price before we listed it with brokers, that he could finance purchase on terms slightly in excess of his monthly rent. Before a single line of newspaper advertising appeared, we sold 17 homes for $205,250 to tenants or to persons directly or indirectly contacted through tenants.

BROKER CAMPAIGN

NEXT we sold real estate brokers on the bargain theme. Three leading Westchester brokers were appointed as our sales representatives. Each was given a section of the county as his sales territory. The three representatives, in turn, endeavored to line up all other brokers in the county to work with them. Representatives and brokers were promised the recognized 5 per cent commissions on sales made directly by them and, in addition, a representative was guaranteed 2½ per cent when a broker working under him made a sale.

By direct mail and by personal solicitation, the three representatives made an intensive and successful effort to convince other brokers that this sales campaign was not going to be just an ordinary effort. A steady barrage of stimulation letters, dealer helps, home photographs, prospect booklets, listing sheets, suggested form letters for prospects and window display suggestions went to every broker long before the first newspaper advertisement appeared and after advertising ceased. The result was that no broker was allowed to forget the sales campaign. He had tangible proof, almost daily, that we were offering homes at "bottom-of-depression prices."

Our first advertisement appeared in the New York *Times*, the New York

Herald Tribune and eight Westchester County newspapers. The advertisement occupied five full columns, instead of the usual small space used by real estate sales advertisements during the last few years, and was just about as far away from our customary type of refined typography as it could get.

It brought results. By shouting bargains instead of hinting at them, it and two succeeding advertisements brought in around 1,000 inquiries for homes selling up to $30,000. More important than that, they were good inquiries. Our sales representatives tell us that they seldom have participated in campaigns in which prospects were so interested in buying and were so financially able to buy.

The booklet sent to coupon signers was as iconoclastic as our newspaper advertisements. It wasted few words on the glories of living in the country. Instead, it sold bargains. It was a terse, short-sentence explanation of the financial benefit of buying one of our homes. It told why the homes were priced right, showed how homes could be financed like rent, told why it was cheaper to buy than to build. It was illustrated with pictures of some of our homes, of course, but its main purpose was not to sell any one home. It tried to convince the reader that he should buy a home.

ECONOMY IN SELLING

THE bank dealt directly with only its three sales representatives in this campaign. Instead of directly trying to stimulate all of the brokers in the campaign, we sent stimulation material, dealer helps, etc., to only three organizations. These three organizations made it their duty to contact the other brokers and keep them steamed up. Thus we escaped the work and expense of dealing with several hundred men.

Following our usual publicity practice, we steadfastly endeavored to give newspapers no stories telling what *we* thought of our campaign. We did send out sales figures—lots of them—but virtually all without interpretation. They were impressive figures and we knew they were impressive. We knew, too, that real estate editors would regard them as impressive and would want to know more about them. Any newspaperman will tell you, of course, that we guessed right. Real estate reporters came to us for facts about the campaign, got what they wanted, wrote as they pleased—but always fairly and accurately. The net result is that few real estate campaigns of comparable size have ever gained as much newspaper publicity as did this campaign.

Real Estate Forecasting

By P. P. PULLEN

Chicago Title and Trust Company

FOR several reasons the science of real estate forecasting has been badly neglected. Only recently have any steps been taken to put it on the same basis as other forms of property. With the increased interest of the Government in real estate financing and construction, however, some steps are being taken looking toward the systematic correlation by Government bureaus of the vast amount of data available locally and their presentation in usable form.

A careful study of past real estate cycles, using all of the available data at hand, shows a fairly well defined pattern and a logical sequence of events.

Thus, starting at the bottom of any of the depressions, gradual betterment in general business, increased wages and employment cause families that have "doubled up" for the sake of economy to seek new quarters and families that have curtailed their dwelling space to expand it once more toward their normal requirements. This causes dwelling occupancy to increase and gross rents to begin to rise. Since mortgage interest is fixed and since the expenses of operating buildings advance more slowly than gross rents, net rents rise even more rapidly.

As a result of the rise in rents the selling prices of existing buildings begin to advance sharply, and since the present structures can be purchased at prevailing low prices (low relative to the cost at which they were constructed) very little new construction takes place until the buildings already on the market have found new owners. When the existing crop of structures has been absorbed new construction starts, slowly at first, but gains impetus as the construction industry recognizes that at last it is profitable to build once more.

Since the bottom of any depression is always followed by low interest rates and an accumulation of idle capital seeking new investment, the volume of building is stimulated and sustained by a liberal supply of credit. The ease of

I.C.C. CHAIRMAN

Carroll Miller (below) has succeeded Charles B. Mahaffie as head of the Interstate Commerce Commission. Mr. Miller became a member of the Commission in 1933

HARRIS & EWING

financing new buildings attracts many sub-contractors and even building mechanics into the construction field as operative builders and since the amount of capital outlay which they are required to make is small they flourish and add to the volume of new construction.

THE WILDFIRE PERIOD

THE new buildings absorb vacant land and thus give earning power to land long dormant. As a result the tracts adjoining the settled area become ripe for development, prices of close-in areas advance rapidly and the movement spreads beyond the recent confines to outlying farm areas. Acreage is subdivided into building lots, improvements are installed and lots offered at many times their value as acreage. Speculators make large profits and the news of fortunes made spreads like wildfire among the public.

Soon after the peak of activity is reached the land market enters a dull phase. There is no decided reaction in prices and financing is undisturbed. Asking prices are even advanced, but there are fewer cash sales and more trading of one equity for another. Meanwhile the foreclosure rate has begun to increase as owners of heavily mortgaged properties find that the peak income has declined slightly or a heavy prepayment falls due.

THE GRADUAL DROP

UP to this time there has been no important recession in general business and real estate has grown dull because of reasons peculiar to itself. There are indications that the end of the period of prosperity is approaching, however, and the failure of a large bank or an important commercial house or a general break in the stock market is all that is required to precipitate a general crash. Thereafter events are likely to occur with great rapidity in the real estate market.

The general slackening of business and industrial activity, with increased unemployment and lower wages, has reduced purchasing power. Vacancies in dwelling and commercial properties increase rapidly as families leave the cities and return to the farm or small town where they can live more cheaply. Many of those who are left are forced to contract their living quarters or move in with relatives and friends. Rents are cut and the margin between income and operating expenses reduced to the point where there is not enough to pay interest or taxes.

In this situation financial institutions reverse their liberal lending policy and nearly all phases of real estate activity are suspended. Normal sales of real estate have practically ceased; the only transfers are foreclosure sales or conveyances to avoid judgments.

In past cycles this situation has usually lasted for a period of four or five years, until the wreckage resulting from the collapse of the previous boom has been cleared away. Meanwhile the beginnings of industrial recovery or a rise in the stock market have put certain groups in funds to take advantage of the best bargains to be found in the real estate market. Increased purchasing power has begun to increase occupancy, rents start to rise once more and the real estate cycle has come back again to the starting point.

By HOWARD E. DRAKE

East River Savings Bank, New York City

The Blight of Vacant Buildings

THE telephone recently brought a woman's frantic voice stating, rather incoherently, that some one was breaking into an adjoining vacant dwelling. The voice had already phoned the police. We owned the dwelling, which was in a quiet suburban residential community. Our investigation showed that a local real estate broker, having forgotten his key, had started to break open the rear cellar door. The moral is: It is difficult to keep a vacant house from being broken open; and, also, neighbors in the better communities will usually cooperate in the protection of the property.

Vacant buildings are always a problem. No one realizes this more than the real estate officer of a bank that has lent on a variety of buildings in various neighborhoods. Each type of building and each neighborhood present different problems. In a bad neighborhood in Manhattan, unemployed men actually pulled up the floor boards in a vacant loft building, leaving only the floor beams in place, so that they could sell the wood. At this same building, iron workers who had been sent to remove the lower part of the fire escapes suddenly discovered that these men were stealing their tools from the bottom of the ladder while they worked at the top.

On the other hand, another building a short distance away has remained vacant for two years with practically no damage, either to the interior or the exterior. All vacant buildings that are neglected deteriorate fast and cast a blight on surrounding property.

DEPRESSION VACANCIES

IT is natural that some buildings should be vacant during a depression. With a normal contraction of business, the less attractive business buildings become more difficult to rent as firms move to modern buildings in better neighborhoods. Residential buildings feel the same effect as families move away or double up with relatives; some homes are broken up through death and fewer homes are begun by newly-weds.

Then, again, residential buildings become illegal for occupancy, as has been happening in New York City for the past year with "old law tenements". Although many dwellings and tenements have become obsolete and should be torn down, many others, temporarily vacant, will be occupied with the return of better times. In the meantime, what should be done with these vacant buildings?

CARETAKER QUESTION

SOMETIMES, it is wise to have a caretaker in charge, particularly when the building is an expensive residence on a large estate where the caretaker may be a former gardener or one who may become a gardener for a new owner. In smaller residences of 12 rooms or less a caretaker may become a liability. It is a curious fact that few dwellings of less than 12 rooms are rented or sold when a caretaker is in charge. This has been variously attributed to chance; to a buyer or lessee being hesitant about taking the roof from over a caretaker's head; to the house being unattractively furnished to the prospect's unimaginative eyes; or to the slighting remarks casually dropped concerning the rusty water, the leaking roof, the poor heating plant, or a dozen other items, large or small, that might be wrong with any house.

If a residence is not to be occupied, what then? First, one neat sign large enough only to be seen and easily read should be securely fastened in a prominent location. The assortment of real estate brokers' signs which usually hang everywhere should be avoided. If there is a single broker in the neighborhood, he should be permitted to post his sign; otherwise, to eliminate favoritism, the owner might better remove all brokers' signs and post his own containing the phrase "brokers protected". Brokers will confidentially admit that a multitude of signs hurts any neighborhood, but, so long as the others do it, few hesitate to tack up their own signs.

In addition to a large "For Sale" or "For Rent" sign, a small iron enamel sign, approximately 5" x 7", is sometimes placed at the front and rear entrances with the following warning: "Do not destroy this property under penalty of law. Key may be obtained from, etc.". This type of sign has been found to be of help in protecting the property, as small boys will hesitate to break in if such a sign is visible. These signs can be used over and over again and cost little originally.

Sometimes expensive houses not occupied by a caretaker should be protected with either watchman service or a burglar alarm. The charge for either of these depends upon the size of the house and its location. The burglar alarm costs several times the watchman service, but is much more efficient, as a police alarm is sounded if any part of the house is opened.

BOARDING-UP QUESTION

GENERALLY speaking, vacant dwellings should not be boarded up, for then inspection becomes almost impossible. On the other hand, vacant multiple family tenements usually should be boarded up to protect them against vandalism. In cases where these tenements are very old, it is often advantageous to sell the plumbing fixtures, traps and old pipe before they are stolen. Second-hand dealers buy these for export to Canada or the rural areas where they are quickly bought. It is often necessary to cover the windows with galvanized iron and close in the store windows, roof, openings and skylights against vandals. Persons stealing fixtures usually disregard the front entrance, however, and go to the trouble of moving the traps and plumbing fixtures out through the roof or sometimes even through a hole knocked in a brick party wall.

Easy access must always be provided for interested persons, but access must be denied tramps, mischievous children and youths bent on destruction. Many large property owners are using master locks. These are lock cylinders and padlocks all keyed alike, so that one key will open the lock on any property. Cylinder padlocks of this sort are available and, being made to Government specifica-

tions, are very substantial. Brokers are supplied with a master key. It would be desirable if a number of institutions and other large property owners would all use the same key, making the access still easier for proper parties.

NEIGHBORS ARE AGENTS

IN some suburban areas, the real estate brokers put key boxes outside the entrance doors. These boxes contain the key to the entrance door and are kept locked. One key opens any of the boxes. This system has many advantages and can be used in conjunction with master locks. The neighbors often delight in having the houses open so that they can show them to their guests. In fact, they respect the open premises more than they would a locked-up building, seeming to accept unofficial duties of caretakers. This is particularly so if the grass and shrubs are kept trimmed.

In suburban and rural areas it is well worth a few dollars a month to have some local person keep the grass cut, the hedges trimmed, and the old papers picked up. Uncut lawns soon deteriorate and if allowed to grow wild will have to be plowed up and resown. The entire community looks seedy and depreciates in value if a single property is allowed to grow wild.

Vacant property cannot be neglected. It often requires as much attention as occupied property. If neglected, it depreciates fast and hurts the entire neighborhood.

BAR ASSOCIATION

Arthur T. Vanderbilt, Newark, New Jersey, has been nominated as president of the American Bar Association. The association's convention will be held late next Summer

PICTURES

How Many in Your Bank Read BANKING?

Check or Cash?

To the Editor:

TOM, Dick and Harry, not to mention Jane and Susie, find comparison of salaries one of the liveliest of indoor sports. It is surprising how quickly an increase is discussed among the friends of the favored one.

I recently talked with two friends in other banks about payment methods. One expressed the intention of changing from check to cash. The other said his bank was going to do away with cash payment and substitute the check.

One bank was giving up the cash method because it was too much trouble, because audit was more difficult, and because, in some way, it thought Social Security requirements could be more easily met with check payments. The other bank was switching to cash payment in order to avoid the publicity of the check system and to have the payroll work done by the tellers in spare moments, instead of taking the time of a clerk to make out the checks.

One person says payment by cash provides no more secrecy than payment by check; another disagrees; and so it goes. Perhaps, after all, it's a matter of preference.

EDWARD N. HAY

Personnel Officer,
Pennsylvania Co. for
Insurances on Lives and
Granting Annuities, Philadelphia.

TRADE COMMISSION

W. A. Ayres is now chairman of the Federal Trade Commission, under that body's rotation system. A former member of Congress, he was appointed to the F.T.C. in 1934

INTERNATIONAL

Thrift Lessons That Start Early

By HOWARD HAINES

Cashier, First State Bank, Kansas City, Kansas

WHEN you hear 32 eighth-graders rushing pell-mell into their classroom because they don't want to be late for that lady who talks on nickels and how to control them; when the old folks increase their deposits from twenty-seven million in 1920 to more than thirty-five and a half million in 1936 and make it a habit to drop in for sound advice every little bit, then something worth while is happening. And we decided to investigate.

"Mr. President," we said as we passed from one department to another, "the thing that has been most noticeable about your bank* is the extent to which you have been able to educate the public hereabouts. Many good things about your institution have come to us through outside conversations."

"We are glad to know that. It is due to all of our workers, but more particularly to that department, which we instituted in 1920."

INCOME MANAGEMENT

WE were standing beside a wide mahogany desk on which a small placard said: "Margaret J. Bacon, Director, Income Management Bureau".

"The work of the bureau," the president explained, "has brought the bank closer to the people of Rochester by increasing good will and playing a part in educating people to save and spend properly. We use no high pressure methods . . ."

"And is Miss Bacon here today?" we asked.

"Just now she is over at the Durand-Eastman School," he replied. "I am sure she will be glad to see you. Perhaps this afternoon you could find time to call back?"

But our interest was too high. Why wait until afternoon? We determined to see how Miss Bacon carried on her work in the field of thrift education in the schools and elsewhere.

Not one of the 200 students whose eyes were glued on the attraction down in front saw us slip into the auditorium. We became as entranced with the occasion as the youngsters, for suddenly Mickey Mouse appeared on Miss Bacon's left shoulder and up hopped Minnie on her right.

"How are you, folks?" laughs Mickey. "We just came East to work for the Monroe County Savings Bank."

"And we came all the way on a railroad train, too!" chimes in Minnie, jumping up and down with glee. Minnie is all ears as her better half extols the virtues of a savings account. Mickey picks up a photo of the great vault door at the bank which houses safety boxes.

"When we put our valuable papers behind these steel walls," says Mickey, "neither burglar or mouse can get them".

It's rapid fire, but all the incidents lead up to something about spending, giving, or starting a school account. These amusing puppets turn to the children and ask questions. Laughter spreads. A bell is ringing. No one wants to leave, not even the teachers.

(CONTINUED ON NEXT PAGE)

*The Monroe County Savings Bank, Rochester, N. Y.

Few have developed such ability as Miss Bacon's to present financial rules to both children and adults. Quiet, unassuming, she is using rates of interest, charges for loans, advantages of safe deposit boxes, and the many reasons why all should save and the various things for which we should save, as the cores of many charming conversations, usually presented to children by Minnie and Mickey or monkey puppets. She assures us these fist puppets are surefire attention-getters.

In speaking before the General Federation of Women's Clubs, New York City, in 1935, Miss Bacon illustrated her conception of rightly planned household economy when she said:

"How shall we develop leadership in personal finance within the family and have early training in facing the problems of money management? By giving children who know small coins, who can make change and count money correctly, an allowance. By gradually increasing the amount as needs increase, and always providing at least a few pennies for an area of caprice in which the child may exercise judgment in money matters. Records of expenditures are wise for some children. Explain that increases in allowances are thoughtfully considered when pleas are backed by facts. In days to come the modern college will include as an entrance requirement some evidence of ability to manage money. We have the responsibility of preparing the child for being an adult in money matters. We must know the areas of necessity and the areas of caprice and their controls."

Among the other things the bank has developed under the supervision of Miss Bacon is an outline of thrift education for elementary schools. This outline, worked out in detail, embraces work from the third to the eighth grade, covering the subjects of language, composition, arithmetic, geography, history and civics, drawing and music, psychology and hygiene, with sets of thrift topics in each subject. It shows clearly how thrift education may be introduced in each of these classes with no extra time required. Thirty-six types of thrift themes for the school year are given. School banking supplements this course.

Financial institutions are considering the importance of encouraging the introduction of such thrift material in the curricula of elementary schools.

But Miss Bacon has gone much further in customer education. There are the 4-H Clubs, P.T.A., Y.W.C.A., and many other organizations and clubs as well as just individual adult training. Beginning with numerous factory visits and surveys 16 years ago, she and her brother, A. Dewey Bacon, now assistant secretary, gained interest through posters and letters. The work developed slowly but steadily, until today the bureau handles school saving promotion, child and adult conferences, budget leaflets and bulletins, window displays, club programs, compilation of reference files on income management and the maintenance of a thrift education library.

In 1935, 563 talks were made to school assemblies, aside from 176 visits to rural, private and parochial schools and 25 addresses to miscellaneous organizations and clubs.

POOR RICHARD UP-TO-DATE

IN presenting ordinarily dry and uninteresting financial rules, Miss Bacon offers a challenge to her listeners or readers. Her bank folders and leaflets are directed to all ages. "Money management in the home means development of keen analytical power in every member of the household, often discovering latent possibilities for group appreciation of some quiet member, possibly the earner. . . . Group thinking may be summed up to be: the sagacity of a Micawber, the sense of value of one consecrated to a good life, the fortitude of the buyer who is seldom sold anything, for he or she buys what is wanted, the self-control and wisdom of a fine wife and the calmness and keen insight of a sane husband. It's a gift, a challenge, and a state of mind. There is still pioneering to do on the frontiers of money management. Let's meet this challenge . . . with fortitude and watchfulness. The mills of taxation and relief are grinding."

We came away with the renewed realization that one of the surest roads to happiness and permanent prosperity lies in remembering our nation's greatest asset—young America. To this coming generation we entrust the obligation to encourage pride in thrift, to adopt carefully standards of living that can be paid for and maintained. Envisioning nations that have pyramided debt in a vain attempt to manufacture prosperity, we urge sure travel on the safe road of careful spending and saving. To leaders today and tomorrow we repeat this bank's philosophy that the degree of reverence with which our people regard frugality, determines, to a large extent, the rise or decline of these United States.

More Small Homes

A NATIONWIDE program to demonstrate the feasibility of constructing low priced homes has been started by several organizations identified with the building industry.

Associations representing lumber, concrete and brick production are sponsoring the plan, which is to carry out general principles of small house construction evolved by the Federal Housing Administration.

"The long range objective of the program," said a statement from the F.H.A. headquarters in Washington, "is to make available to approximately 70 per cent of the nation's families, properly designed and well-constructed homes containing minimum requirements of livability and comfort.

"This program will attempt to prove that properly designed small houses can be built to sell within a price range that will attract the great mass of potential small home owners comprising a large majority of our population."

The first of a series of dealer meetings, sponsored by the National Retail Lumber Dealers Association, was held at Indianapolis where a demonstration home program was started. The objective is the construction of one or more low priced houses in approximately 1,000 communities throughout the country. The F.H.A. is to aid the industrial groups in this project. A series of conferences will be held during the year in large population centers where Housing Administration experts will outline details of land planning to builders and others interested in small home construction.

In order to make the program more comprehensive, the Administration said that plans had been made for the participation of public utilities, newspapers and retail department stores.

In addition to the lumber dealers' organization, groups sponsoring demonstrations include: the National Lumber Manufacturers Association, National Concrete Masonry Association, National Concrete Contractors Association, and the Brick Manufacturers Association of America.

Pre-Mechanized Banking

"AND why," said the head bookkeeper to the young man, "do you think this bank should give you a situation?"

"Well," replied the youth, "I'm reasonably accurate at figures and I write a good hand."

Those were proper qualifications and he got the job, reporting for work on the morning of January 15, 1872, his 20th birthday.

The bank was the Union Trust Company, New York, and the new banker was John Van Buren Thayer, now vice-president of the Central Hanover Bank and Trust Company, the institution which, through a series of mergers, succeeded the old Union Trust.

On the morning of January 15, 1937—his 85th birthday—Mr. Thayer reminisced a bit about the changes he had seen in banking during 65 years. When he began work the profession was much simpler. The Union Trust had a staff of 15 employees who handled its commercial and personal trust services, its corporate trust activities, and the paying of coupons. There were no typewriters, no telephones, no stenographers.

The machines, of course, came along, slowly at first, soon more rapidly.

Then there was the first telephone. Everybody in the bank was anxious to use this strange new gadget, and whenever the bell tinkled there was a race to the instrument for the privilege of talking over the wire. Conversations were usually difficult and indistinct, and many were the "wrong numbers".

On one occasion a clerk who had answered a ring called:

"Do we register or transfer stock of the Terrapin Mining Company?"

"No," was the reply, "we don't. There isn't any such company."

The clerk and the voice at the other end of the wire tried for some time to reach an understanding. Finally Mr. Thayer went to the phone.

A man's voice said: "I want two portions of terrapin."

"I'm sorry," said the banker. "We don't have it. This is the Union Trust Company."

"Oh," said the voice. "I asked for the Union League Club."

A Few of BANKING'S Contributors

HERE are a few facts about some of the contributors to this month's BANKING.

Kenneth Murchison ($5,000 Worth of House) is an architect by profession, although his versatility has taken him into other fields, among them banking and music. For a time he was vice-president and public relations counsel of the Central Savings Bank, New York. He has designed railroad terminals in several cities, as well as cooperative apartment houses, a hotel and a club or two, and a bank. He is a director in several real estate corporations and a former member of the governing board of the New York Real Estate Board. On occasion, he can conduct an orchestra. J. E. Le Rossignol (Money to Burn) is a native of Canada—specifically, Quebec. He is now Dean of the College of Business Administration, University of Nebraska. His writings include several well known books.

Roger W. Babson (Inflation Is Rosy as a Winter Sunset) is founder, president and chairman of the board of Babson's Statistical Organization at Babson Park, Wellesley Hills, Massachusetts. He is also vice-president of the neighboring Newton Trust Company and a director in several corporations. His writings on financial subjects, especially investments, are widely read. Edward H. Collins (What Are "Other Loans" Made Of?) is associate financial editor of the New York *Herald-Tribune*. He has had a wide experience in financial journalism since attending Columbia University.

Walter E. Spahr (Inflation-Proofing Is Hard) has written, edited or collaborated in the production of many books on economic and financial subjects. Now chairman of the economics department of New York University, he previously taught at the University of Wisconsin, Dartmouth, Columbia University and Princeton University. He is secretary-treasurer of the Economists National Committee on Monetary Policy. E. S. Woolley (Small Trusts Make Big Problems) is a specialist on bank management, including costs, operating methods and audits.

Norman Crump (How England Cut Excess Reserves), banking editor of *The Economist*, London, is an expert whose name is well known to members of the profession, here as well as abroad. Thomas H. Reed (Freezing the Cat), attorney, author, editor and expert on municipal finance, has had a broad experience. In addition to teaching at the University of California, University of Michigan and Harvard University, he has long been identified with research in municipal government, and has written several books. One of his positions was the city managership of San Jose, California. In addition to being director of the consultant service, National Municipal League, Mr. Reed is chairman of the Committee on Civic Education by Radio.

King O'Hara (This Mechanized Farm Age) is a banker who has long been identified with financing in the farm implement field. He is vice-president of the First National Bank of Chicago. BANKING's Washington observer, George E. Anderson (Consumer Loans Rise), has had diplomatic as well as journalistic experience, having served as an American consul in Europe and the Orient.

Space prevents including this time a dozen other distinguished contributors.

BANKING'S Contents, February 1937

BANKING'S Advertisers, February 1937

THE CHASE NATIONAL BANK

OF THE CITY OF NEW YORK

Statement of Condition, December 31, 1936

RESOURCES

Cash and Due from Banks	$ 669,417,960.32
U. S. Government Obligations, direct and fully guaranteed	780,030,063.96
State and Municipal Securities	74,958,735.88
Other Bonds and Securities	181,721,324.76
Loans, Discounts and Bankers' Acceptances	772,031,008.07
Banking Houses	37,434,504.12
Other Real Estate	4,041,382.27
Mortgages	10,681,010.10
Customers' Acceptance Liability	15,193,896.78
Other Assets	16,672,185.09
	$2,562,182,071.35

LIABILITIES

Capital Funds:		
Common Stock	$100,270,000.00	
Surplus	100,270,000.00	
Undivided Profits	26,464,246.95	
		$ 227,004,246.95
Reserve for Contingencies		14,825,371.74
Reserve for Taxes, Interest, etc.		1,418,836.88
Deposits		2,286,209,092.08
Acceptances Outstanding		17,360,230.24
Liability as Endorser on Acceptances and Foreign Bills		8,174,215.76
Other Liabilities		7,190,077.70
		$2,562,182,071.35

United States Government and other securities carried at $158,328,914.57 are pledged to secure public and trust deposits and for other purposes as required or permitted by law.

Member Federal Deposit Insurance Corporation

BANKING'S DIGEST—FEBRUARY 1937

FISC
men
entral
with t
amula
The
advant
their ex
to thei
The
econor
played
of tota
We
anger
an ro
tion. V
ugal f
Nation
ures,
nation
into as
Con
gold s
An
pursui
stabili
are co
easy c
withou
a poin
ened r
bound
trial n
disequ
struct
cies. C
Unite
china
It s
tween

CON
g
Treas
ceived
ure, a
for ot
Treas
for th
In
issue
up go
ount

Febr

Money in a Free Democracy

FISCAL policy, including tariff measures and the management of the budget, may, in conjunction with separatist central bank action, permit a country to drift far out of line with the world economy, eventually developing a serious cumulation of strains in the international structure.

The terms of trade are likely to run persistently to the disadvantage of preponderantly agricultural countries since their export prices are likely to prove unfavorable in relation to their import prices.

The security market has come to play a role in the modern economy which enormously over-shadows the modest one played in the pre-war period. An ever-increasing proportion of total investments find their way into the security market.

We have and we shall continue to have institutional arrangements making for wage rigidity; no democratic country can root out trade unions or turn its back on social legislation. We have and we shall continue to have powerful centrifugal forces tending to break up the international system. Nationalistic management of money, tariffs, public expenditures, taxation, public debt, and wage rates make an international system unworkable so long as these policies diverge into as many directions as there are nations.

Confronted with this situation, a return to the automatic gold standard is, to say the least, precarious.

An alternative course lies along the path we are currently pursuing—international collaboration through exchange stabilization funds. So far as short-run disturbing influences are concerned, the function of the funds is a comparatively easy one. But long-term exchange stability is not possible without securing international equilibrium. We have reached a point of international interdependence at which enlightened nations must realize that their own internal security is bound up with international stability. An important industrial nation may, with its tariff policy, build up an increasing disequilibrium which will finally wreck the international structure. No less is this true of monetary and finance policies. On more than one occasion during the last 16 years the United States has been, so to speak, a bull in the international china closet. Nor have we been the only sinners.

It should be the function of international collaboration between the stabilization funds to maintain exchange stability for a considerable period beyond the point at which it became reasonably evident that long-term disequilibrium was developing.

It should be possible to achieve over prolonged periods substantial stability of exchange rates, leaving in the system sufficient flexibility to provide, in the event of utmost necessity, a moving equilibrium—one that takes account of fundamental disparate trends in the national economies too deep-seated to be removed by internal adjustments.

The overshadowing difficulty which such a system must face is, I think, the impact upon the monetary structure of the demands of labor. Can democratic institutions exercise the needed restraint on the pressure for higher wages to make the price system workable? Will the labor movement be able to develop sufficient self-discipline to prevent periodic breakdowns in the money economy? Labor will not brook a fixed gold standard that requires from time to time deflationary readjustments. But what is the alternative? If the door is opened to devaluation, to currency readjustment, every time labor presses its claims, will not a vicious spiral be set up which must end in the chaos of inflation? The fact is that controlled monetary flexibility no less than monetary rigidity, presents grave dangers and pitfalls. Yet it is probably in this direction that we shall be compelled to seek our salvation. If we cannot learn, through compromise and self-restraint, to solve this problem, democratic institutions will be in the end forced to give way.

The degree of success attained by future monetary management will, in large part, determine the extent to which the system of private enterprise can continue to operate under a price economy as distinguished from that of authoritarian states. It is for democratic countries that the institution of money is of overshadowing importance. Totalitarian states have more significant instruments of control. For them, money can quite readily be reduced to a mere unit of account.

But for democratic countries money is an essential institution. Only through its functioning can individual choice in economic decisions be preserved.—ALVIN H. HANSEN, Professor of Economics, University of Minnesota, before AMERICAN ECONOMIC ASSOCIATION.

Transmutation of the Gold Standard

CONTROL over the currency under the pre-war automatic gold standard system was very simple. Gold came to the Treasury of the United States and at a fixed rate one received for it either gold coin or gold certificates at his pleasure, and when gold was needed to take out of the country or for other purposes gold certificates could be presented to the Treasury and the gold was automatically given in exchange for them.

In European countries central banks in general would issue their notes freely in exchange for gold and would give up gold in redeeming their notes. Gold moved in and out of countries in moderate amounts in settling international balances. As it moved out of a country it was withdrawn from central banks by a process which reduced the reserves of the commercial banks of the country and tightened the money market. The higher interest rate tended to check the outflow of gold and the process was self-limiting. Gold coming into a country increased the available supply of bank reserves and lowered interest rates, which again tended to make the process self-limiting.

Each money market defended its own gold, primarily by discount rates. The country which was expanding credit too rapidly was pulled up by loss of gold to the rest of the world before it had gone too far. We have today, however, with the

suspension of these automatic arrangements in most parts of the world, no such definite consequences from the international movement of gold.

The new institution of stabilization funds has complicated the matter in a way that needs explanation. The need for this is the greater since stabilization funds do not work the same way in all countries. The British stabilization fund was not created out of gold but out of public debt. Our $2,000,000,000 stabilization fund was created out of the so-called "gold profit" resulting from the devaluation. The British stabilization fund was created for the purpose of reducing fluctuations in sterling rather than for the purpose of creating a definite rate, although in fact sterling has been held in fairly close relation to gold for three years.

Our stabilization fund created, not out of Government debt, but out of gold itself, worked in a very different way. It got its dollars only by depositing gold certificates with the Federal Reserve banks, and as it drew against these deposit credits it increased the reserves of the commercial banks of the country. The gold certificates of our stabilization fund could not be used without increasing our excess reserves. The institution of our stabilization fund, therefore, did not alter the fact that incoming gold increased bank reserves and outgoing gold had the reverse effect.

Alarmed at the continued inflow of foreign gold, our Treasury has lately adopted the policy of undertaking to "sterilize" this gold as far as effect on our own money market is concerned, not by issuing new money against it, but by borrowing money from the commercial banks with which to buy it. The gold thus purchased does not add to the credit base. If our bank reserves were not excessive, this operation would tend, as is the case in England, to tighten the money market as the gold comes in. But with our present great excess reserves it has no effect on the money market other than to increase the already excessive volume of commercial bank deposits. It is an interesting experiment, though I believe only a temporary palliative, because it is unlikely that the Treasury will feel justified in borrowing very large sums of money for this purpose.

The British stabilization fund is understood to have about £375,000,000, or roughly $1,875,000,000, of government securities which it can use in this way. If our Treasury is prepared to go as far as this, of course it could meet a continued gold inflow of very important magnitude by this method.

Obviously, if the British Government is to accumulate gold through public borrowing to the extent of $1,875,000,000, and if our Government is prepared to accumulate, in addition to the gold already in the stabilization fund, a further vast sum of gold with the proceeds of public borrowing, we have a great intensification of what we must already characterize as a new and very significant thing in the world. Such vast sums in public treasuries, handled in the spirit of trustees who look to the long future, might prove a very efficacious method of holding back and spreading out through the years the consequences of the devaluations that have taken place in the currencies. But such trustees would have to have a far longer vision than governments have ever yet manifested, and a far greater independence than either autocrats or parliaments have ever allowed public treasuries. They would have to resist demands for radical reversal of policy at every sign of lagging stock market or business recession. They could, of course, neutralize in a moment any effort made by our Federal Reserve System or by central banks to tighten up money in a period of boom.

I do not undertake to solve the problem here or to make predictions. I present the problem.—BENJAMIN M. ANDERSON, JR., Economist, The Chase National Bank, New York, before the CHICAGO ASSOCIATION OF COMMERCE.

It's Hard to Plan with Planned Economy

OUR citizens have decided that the central Government must undertake the solving of their economic problems.

Under the circumstances we may well be confident that for many years to come we shall choose each four years on election day not merely a President over our politics, but a President over our economics. This is the paramount business development of our time. It is a condition which must control our attempts to forecast business developments both for the long-term and for the short-term. It means that politics has assumed command over economics.

In this recovery business men have waited until profitable business has developed, and now they are increasing their facilities as fast as the volume of profits seems to warrant. The resulting irregularity of improvement has been so marked that some important parts of our business activity are still at low depression levels. Some are still below the bottom levels of the depression of 1921 which, while short, was the most severe that we had ever experienced up to that time.

It is an impressive fact that in 1936, the fourth full year of recovery, the volumes of new factory building, of new commercial building, of public utility construction, of new railroad equipment, and of new corporate financing, were all below those of the lowest year of the depression of 1921. These conditions are particularly noteworthy in view of the fact that our population then was 20,000,000 less than it is now. They emphasize the retarding effects which may result from the tendency of managed economics to make future planning difficult and dangerous. Probably business forecasting in the future will largely consist of political interpretation.

We are at present well along in the process of recovery, and the rest of the world is still farther along. Recoveries are like depressions in that when they once get well started they acquire momentums that are almost physical in quality. This fact warrants us in reaching some general conclusions about the prospects for business in 1937 despite our new condition of managed economics.

The conclusion that seems justified is that general business will be better in 1937 than in 1936, in spite of the unrest that prevails in much of the world, the labor difficulties which may develop here, and the new legislation that the Congress may enact.

It seems entirely probable that the volume of new construction will continue to increase. It is easy to demonstrate statistically that we should be entering upon a building boom, but that appears to be unlikely. Building booms develop in

residential and commercial construction when rents are high as compared with costs of labor and materials, and they develop in factory building when the volume of new corporate financing is high. None of those conditions now maintains.

This country needs immense amounts of new construction of almost all types, but the conditions necessary to supply the demand have not developed. We should expect continuing increases, but no real boom as yet.

Probably it would be of little value to attempt to forecast in greater detail the business developments that seem likely to take shape in 1937. More important questions are those relating to the general conditions under which business will be done in 1937 and in future years under a system of managed economics. A general answer to those questions may be derived from the apparent fact that the American people truly believe that their Government has discovered a method for overcoming depressions, and for creating prosperity.

Since it seems to be literally true that most of our people sincerely believe that the Government has found out how to do these things it follows that they are quite justified in demanding that the authorities at Washington should do them now, and what is more important, that they should continue to do them in the future.

What this really means is that by the logic of events our national Government stands committed to maintain continuous prosperity.—LEONARD P. AYRES, Vice-president, The Cleveland Trust Company, before the CLEVELAND CHAMBER OF COMMERCE.

The Price and Interest Tide

THE prospects are strong, in my judgment, that we are facing a period of rising commodity prices which will ultimately carry the price level to something like twice the height it is today. The inflationary forces that will push up the price level have not yet gotten into full effect, and we are now in the temporary period of monetary and credit glut and resulting low interest rates, which usually precedes a strong upward movement of commodity prices—a movement that is usually followed by advancing interest rates.

The present situation is in many respects like that of the year 1915, when interest rates were low because of the temporary redundance of moneyed capital and before the great World War upward movement of commodity prices had gotten into swing.

Whenever, as a result of governmental cheap money policy, a strong upward movement of commodity prices gets into full swing, the policy breaks down, because it increases the momentum of rising prices, and tends to engender a flight from the dollar. All this causes an upward swing in interest rates that no repressive measures on the part of the government can stop. As well try by governmental action to prevent the tides from rising under the gravitational pull of the moon. Witness the advances in interest rates that accompanied the post-war inflation in Central Europe, or in a much milder form witness our own experiences in the United States from 1915 to 1920.

From the standpoint, therefore, of economic theory and financial history the evidence, I believe, is strong that this country in the not distant future will experience a period of rising interest rates. Anything approaching an exact timing of this rise, however, is impossible because it will depend not only upon economic forces but upon such intangibles as movements in mass psychology, in confidence and in politics both at home and abroad. My prophesies are twofold:

I. We shall have in the United States during the years immediately ahead a pronounced rise in the level of commodity prices.

II. This rise in the level of commodity prices will be accompanied or followed by substantial advances in the levels of interest rates, which will result in lower market prices for high-grade long-term bonds than those now prevailing.

If these prophesies are based upon sound reasoning they should be a matter of serious concern to the entire American public.—EDWIN W. KEMMERER, Professor of International Finance, Princeton University, before the Mid-Winter Conference of the NEW JERSEY BANKERS ASSOCIATION.

Uniform Financial Statements

MANY have expressed the belief that the Securities and Exchange Commission is in a position to make substantial contributions in the direction of more uniform accounting practices and more general acceptance of sound accounting principles. Also, when we note the number of occasions writers on accounting and financial subjects find for referring to the attitude of the Securities and Exchange Commission with respect to accounting matters, we can not fail to be impressed with the seriousness of the responsibilities with which the Commission has been charged. This is a challenging opportunity but the anticipated results can be realized only if the members of the profession and the Commission work together in the formulation and execution of sound policies.

In approaching the solution of the accounting problems confronting it under the Securities and Exchange Acts, it seems to me the Commission had several lines of action open to it. First, it might have attempted to lay down definite rules and regulations relating to accounting matters to be followed by all persons registering securities with the Commission. To have followed this procedure would have been virtually impossible, even if it had not been undesirable. The ramifications of accounting are so extensive that to have attempted to follow this procedure would have been a super-

human task and could not have resulted other than in the formulation of a series of regulations which, in many instances, would, undoubtedly, have been premature or unsound.

Second, the Commission might have adopted a positive position upon each accounting question as it arose, thereby establishing a principle to govern subsequent cases. This also would have been subject to the same weaknesses as the procedure previously mentioned.

Third, the Commission might have undertaken to study each registration statement with a view to having the financial data presented in such a manner as the Commission might deem preferable in the individual case. Such a procedure would have led to inconsistencies, detracted from the comparability of statements and only added to an existing lack of uniformity in accounting procedure.

A fourth course was that of studying the individual statements to determine whether the methods followed in their preparation are generally recognized and if not, to cause the statements to be amended in accordance with generally accepted principles. It is this approach that the Commission has chosen to follow in the belief that it constitutes the most practicable procedure.

Consistent with this policy, the Commission has refrained, so far as possible, from prescribing specific rules relating to the presentation of accounting matters and statements may, for the most part, be filed in such form and using such generally accepted terminology as will best indicate their significance and character.

Since most of the required financial statements must be certified by independent public or independent certified public accountants, the practical effect of this provision is to leave the responsibility for the way in which the presentation is to be made, with certain expressed limitations, to the auditing accountant.

What the future policy of the Commission will have to be I am not prepared to say, but we are reluctant to undertake the prescription of principles to be followed except as a last resort. It is hoped the profession will itself develop greater consistency in the many places where uniformity appears essential to avoid confusion in the presentation of financial data and you may be assured the Commission stands ready, in whatever way it can, to assist the profession in accomplishing this purpose.—CARMAN G. BLOUGH, Chief Accountant, Securities and Exchange Commission, before the NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS.

Know Your Costs

COST accounting as far as banks are concerned is still in its infancy. The first real effort in bank cost accounting was made in connection with commercial accounts and most banks today are charging for such services. In many banks this income has resulted in taking the commercial department out of the deficit column.

A great many customers with small savings accounts are bringing banks an unduly large amount of activity and, if a careful analysis of this department were made, we would discover that we have a situation here quite similar to that which we had in our commercial department, and that we must in the near future do one of two things—either find a method of reducing the activity on such accounts as these, or ask these customers to reimburse us for the losses which we sustain in connection with their accounts.

In most loan departments we would find that most of the small loans were costing us more to operate than the total amount of interest that we receive on these loans.

We have another trying situation in connection with the estates trust department. Generally speaking, I think, it is fair to say that we are handling a lot of business for customers of small financial resources on a pure accommodation basis. An adequate job of cost accounting in any bank, by its very nature, necessitates a well developed system of expense accounting. This is set up in most instances on a departmental basis.

There are two types of expense that enter into item costs, namely, direct expense and indirect expense. Departmental expense accounting simplifies the problem of determining what expense should be used in this work. Naturally you must be able to segregate the expenses of any given department from the other expenses of the bank before you can determine the cost of items handled in that department. Some of these accounts have special requirements that add to their cost. In other instances we are permitted to handle items in such a way that the cost is materially less than that on an average account.

On the whole, although we will want to know what the average cost of handling any item is, the thing that we are most interested in is to know what it costs us to handle items for an average customer, because our service charges, which affect this type of customers the most, should be adequate to meet this cost.

In order to allocate properly the total item expense between the various types of items, we must secure a careful count of all items handled and must make careful and adequate timing tests to determine the length of time required to handle different types of items. The results of recent timing tests in our bank were as follows:

	Commercial	*Savings*
Deposits with cash	48 1/5 Seconds	33 1/5 Seconds
Deposits without cash	17 3/5 "	31 "
Cash out	31 2/5 "	58 4/5 "
Checks cashed	17 4/5 "	26 3/5 "
Savings withdrawals	—	51 4/5 "
Savings posting	—	26 1/2 "
Commercial posting items	5 "	
Posting per account-commercial	10 "	
New accounts	6 min.: 7 3/5 sec.	4 min.: 1 1/5 sec.

These time ratios give a weight that you can apply to each type of item handled in any single department.

Very few banks have extended their cost analysis to their loan departments. Under present conditions a study of these departments will reveal some most interesting results.

If we are going to do a good job of cost analysis in our banks, we must have a reasonably adequate set-up of departmental expense accounting.—CHARLES D. GABLE, Assistant Comptroller, The Cleveland Trust Company, before CLEVELAND CONFERENCE OF AUDITORS AND COMPTROLLERS.

Pedestal Complex

PUBLIC relations is perhaps one of the most neglected fields in bank management, and none is more important to financial institutions at the present time. While general confidence has returned markedly in the four years following the banking holiday, there is still much money hoarded in safe deposit vaults and other hiding places, and in postal savings, which rightfully belongs in the banks. This, however, is only one phase of the public relations problem. It is the duty of banks to help their communities to understand the importance of banks in their daily lives, and the many ways in which they can be of real service.

There is as much misunderstanding regarding the importance of public relations in large banks as in smaller institutions. True, the former have business extension departments whose prime responsibility it is to contact outside the bank customers as well as prospective customers. But even there, these departments have difficulty in getting the officers, especially the seniors, away from their desks and into the offices and plants of their friends. And there seems a natural antipathy between credit departments and new business departments of most banks, particularly on the part of the credit men. They take the attitude that they are "watchdogs" of their bank's funds, which they must guard against the would-be sallies and depredations of the new business department, rather than extending full cooperation.

Since large institutions, because of their size, can afford a staff of specialists in the public relations field, they actually accomplish more in the way of cultivation than the smaller institutions, where contact work must rest primarily on the active officers. Most bankers, large or small, agree to the desirability of such activities, but how many direct to them a proper amount of thought and effort? I present the challenge "Are we bankers lazy?" I think, by and large, we are. Our services must be better than our claims—consistent consideration of the customer, personal contact, cultivation of friendships. We must be constantly on the job.

Perhaps, though we profess otherwise, we have too deeply inculcated the old "pedestal complex", that business should come to us. We must realize that we are merchandisers of a commodity—credit. As this commodity is an intangible, it is the most difficult type to sell. Our money is no better or more desirable than another bank's. We cannot compete on a quality basis, therefore, and should not, save perhaps in rare instances, attempt to do so on a price basis, that is, undercutting rates. We can assume that the fundamentals in sound credit are not overlooked.

At the American Bankers Association convention in San Francisco last Fall, the president of one of the largest banking corporations broached in conversation with me an unusual angle to the public relations problem, based upon research which he has made. It seems worthy of thoughtful consideration because of its deep importance—that a bank must be rebuilt about every 15 years.

The average mortality among business concerns and individuals requires their replacement by new customers that a bank may merely "hold its own" over this span of years. In those companies which continue, the turn-over of active officials themselves may result in a loss or division of the accounts unless the successors are tied in as they reach positions of importance—or preferably while on their way up.

Another angle is the official turn-over within the bank itself—present officers retire or otherwise pass from the picture, so that new official contacts must be made by those growing up within the institution. It is this last thought that presents the real challenge to the staff—which of them, through cultivation of business now on the books will be the "tie-in"—the officers handling the important accounts 15 years hence. This idea has been found a real inspiration to the employees and is worthy of considerable additional development.—DUNLAP C. CLARK, President, The American National Bank of Kalamazoo, before the Mid-Winter conference of the WISCONSIN BANKERS ASSOCIATION.

A Small Bank's Field of Service

EARNING assets of banks have undergone very definite changes.

Loans are scarce and bankers almost everywhere are on the alert, anxious to find good loans. However, country banks have not suffered quite as much as the larger banks. It is true that their loans have declined, but country banks are dependent largely, directly or indirectly, upon the farmer for their loans.

Many bankers find that by working and spending a little more time with an applicant these days, loans which at first seem almost hopeless, can be whipped into shape and made safely. At the same time, when competition is so keen and loans so scarce, it seems to me that there is presented the temptation to make loans which later we shall regret having made. In the light of our past experiences, I believe that country banks should guard especially against at least three dangers that have caused us trouble.

The first is in placing too large a portion of our funds in loans, in such a way that they will not be available should we need the money. Second, making loans too far from the front door of the bank, unless they are well secured. Third, as I see it, is in large loans. It does not hurt so very much to lose a \$100 loan, but the loss of a large loan to a country bank can often mean the difference between a dividend and no dividend, especially when profits are lean.

With the change in the character of earning assets, practices have also changed. A few years ago, we would have been surprised, if not shocked, if some of the large banks had made three to five year loans at low rates to corporations for the purpose of retiring the funded debt of these corporations; yet today they are doing just that, and the practice is accepted as a sound and profitable lending policy.

Of course we in country banks do not have many opportunities for loans of this kind but there are four types of

loans which I believe do offer opportunities and likewise will constitute a sound and profitable lending policy.

The first of these is the insurance loan: loans against the cash value of life insurance policies.

The second type of loan that I have in mind is the so-called consumer loan: financing automobiles, farm equipment and household appliances.

The third type of loan is the regular real estate loan. Real estate loans should be made only from time deposits. In discussing a loan application of any kind with a discount committee almost invariably this question is asked: "Has the applicant any real estate?" It is a recognition of the basic worth of real estate as security.

The fourth type is the Federal Housing loan. These loans, at first slow to develop, are rapidly gaining popularity among banks and are recognized as desirable.—GILES H. MILLER, JR., Cashier, Culpeper National Bank, Culpeper, Virginia, before Group II, VIRGINIA BANKERS ASSOCIATION.

A British View of How We're Doing

I FEEL it in my bones that you must soon face up to a more direct solution of the states' problem by well-considered constitutional amendments. Your long-range problems must sooner or later be solved without having to consider the fortuitous substances of artificial state problems. A new kind of centralization of economic function and a new kind of decentralization of administrative are both wanted simultaneously.

Next to function comes mechanism. You must face sooner or later the civil service problem. A highly trained expert service greatly respected and trusted and free from all political ambition or fear would turn many of your well-conceived legislative efforts from half-hearted practical measures into real successes. You cannot get this in a day. But you can get a long way to its establishment in five years and it will reduce your constitutional problem to much smaller dimensions.

In your international trade outlook the wise and far-seeing policy of Mr. Cordell Hull in trade agreements fills me with hope for a joint effort for liberty which will lessen the risks of war antagonisms and widen world prosperity.

The most puzzling features of your position to us are, first, the currency basis, and, second, the labor outlook. In 1936 you continued the business expansion by a volume of production 14 per cent greater than in 1935 and you were only 10 per cent short of 1929. It is difficult not to call this prosperity. But with all this your unemployment figure, put at 10,000,000 by some authorities, is puzzling and disturbing.

If wage demands become too insistent, confidence in private business may not extend rapidly enough.

You are anxious to avoid the dangers of crude inflation with your enormous increase in the basic money supply. It's doubled since 1930, so that I don't look forward to more than a very modest increase in industrial activity and in employment during 1937.

How long you can go on without any of the adverse effects of the inflationary movement and how you will ultimately face the consequences are matters for deep consideration. Some fear has been expressed lest the large increase of foreign holdings of securities in your country should endanger your currency stability in the event of quick withdrawal. Equalization funds on both sides will take the first shock of such a movement in any case, but recent investigation has shown that the holdings are so widely spread and are so well based in securities on investments of a permanent kind that a real run on your financial position by wild selling is most unlikely.—SIR JOSIAH STAMP, director of the Bank of England, in a radio broadcast from London.

Seriously, There Is Too Much Money

FROM a business standpoint, this country is going through a transition period, some phases of which are different from anything in the past. Since I have been actively in business, we have passed through five depressions, but the last one was the longest and more severe than all the others combined. In each instance I think our country came through stronger and better than before.

In recent months we have shifted from a low business level to a very high business level. It seems in most lines we are approaching a sellers' market instead of a buyers' market. Prices are advancing more rapidly and are likely to continue to do so. One of our great problems is whether or not we shall have an orderly activity in business or a run-away market. The latter would be most unfortunate.

This is the first time in the history of this or any other country in which the problem of too much money and too much credit is becoming a serious one. In all our history there has never been such a large basis for credit expansion as we face now. Take one phase only—the amount of gold mined in the world. Measured in our dollars it is nearly three times the amount it has ever been before. New gold is being mined at the rate of $100,000,000 per month. About one-half of this gravitates to the United States. This alone would support a credit expansion equal to $6,000,000,000 per annum. Add to this all the other elements of credit expansion and we are annually having a tremendous increase in our credit facilities. This will undoubtedly raise prices, especially on commodities, real estate and common stocks.

Banks which are members of the Federal Reserve System and which hold Government bonds, can take them to the Federal Reserve bank at any time and borrow currency to the extent of the face value of the bonds, regardless of the

market. While this has never been done, it can be done at any time and of course is an element of credit inflation.

The Government is conscious of all these matters and has taken steps to reduce our credit facilities. The first step was to require all member banks of the Federal Reserve System to increase their reserve, which meant taking out of the banks about one and a half billion dollars and in a way sterilizing this in the Federal Reserve System, of course, to be returned when the country needed it. Further increase of this reserve is now expected.

Possibly the most effective method resorted to by the Government is what is known as sterilizing of our gold imports. This process is entirely new to this country. When gold was imported in the past it was usually deposited in some bank. Under the law, this bank was required to turn it over to the Treasury and the Treasury issued a corresponding amount of currency, with which payment was made. This increased our circulation to the amount of the gold. Under the new process the gold is paid for, but is paid by the Government borrowing from the banks or the Federal Reserve System a corresponding amount and this gold is put in the Treasury under a separate account and no new currency is issued; later, currency can be issued and the obligations of the Treasury retired to the amount of this so-called sterilized gold.—T. R. PRESTON, President, Hamilton National Bank, Chattanooga, before the CHATTANOOGA ROTARY CLUB.

The Country Banker's Faith

THE role of the country bank in the stabilization of banking is of major importance.

The country banker is doing a lot of thinking. In the first place, he is thinking of the causes of certain of our monetary and credit problems. He knows that the depression was due to speculation, excessive inflation, over-expansion of industry and agriculture, abnormal credit, and unwise loans by reckless and get-rich-quick men who called themselves "bankers", who turned over a large percentage of the savings of the American people to greedy foreign governments which even yet prefer to increase their expenditures for armaments rather than make the slightest effort to meet their financial obligations.

He knows that these conditions were the illegitimate offspring of war and that it was war, with its destruction of lives and property and industry, that brought such cruel punishment to helpless millions of people in this and other countries. The country banker knows that war does not pay whether it is financed by taxation, or by the issue of irredeemable paper money, or by borrowing.

The country banker is going to fight for peace. Thereby, he is going to be a stabilizing factor of supreme importance. For there can be no stability in money or in banking so long as the world is afflicted by war and international strife.

The country banker has been thinking about the function of gold in the monetary system of today. Like his city cousin, the country banker does not know much about the gold standard; yet, as a matter of practice he learned years ago that gold can serve as a standard of value without being used as a medium of exchange. Thereby, he learned the basic principle of a managed gold standard.

The country banker has been thinking profoundly about bank credit. He was informed that credit can be controlled effectively by changes in the rediscount rate and by open market operations. Yet from experience he learned that increases in the rediscount rate did not check speculation and gambling in the stock market, but instead penalized the legitimate borrowers who looked to him for the credit necessary to create economic wealth. He learned also that open market operations were ineffective against the forces of inflation prior to 1929, and ineffective to an even greater degree against the forces of depression after 1929.

One of the greatest threats to stability in banking today is the excessive ownership of Government bonds by the banks. Yet an analysis of this ownership in the November 1936 issue of the Federal Reserve *Bulletin* reveals that more than $10,500,000,000 of these bonds are in the portfolios of city banks. It is not difficult to discover the reason for this. In the days when it was taken for granted that a chicken was in every pot and two cars were in every garage the country banker was persuaded by his city cousin that he ought to have a secondary reserve in the form of bonds. Even bank examiners told him he needed bonds. As a result he bought bonds. From bitter experience he learned that his losses on these purchases of bonds often wiped out his entire capital and surplus, even though his loans were virtually 100 per cent good. It is but logical, therefore, that he should now prefer to confine his extensions of credit to business men in his community with whom he is in close contact and whose notes have proved to be a superior investment to a portfolio burdened with a secondary reserve of bonds. He may buy bonds occasionally, but the time is past when he can be sold bonds.

The country banker is thinking about certain problems of bank management and organization. What is his position in the banking system of this country? The non-member country banker has been sincere in his past opposition to membership in the Federal Reserve System, but if we are diplomatic and fair I feel confident that we can look forward to the time when all banks in this country will join the Reserve System voluntarily.

Today, the country banker who is forced to charge exchange on checks is studying the question of service charges in order that the clearing and collection of checks may be done at par and hence more economically and efficiently than at present. He is developing a keen interest in research and cost accounting.

The country banker is likewise finding it expedient and profitable to enter the field of consumer credit. A spirit of friendly helpfulness prevails in the average country bank.

Unless one is in intimate contact with him it is impossible to appreciate the position of the country banker in his community. He is friend and adviser to the humblest client. The country banker has ever been on the frontier of American progress.—ROY L. GARIS, Associate Professor of Economics, Vanderbilt University, before the SOCIETY FOR STABILITY IN MONEY AND BANKING.

Pessimists Always Retreat

THE path of American progress through 150 years of industrial history is strewn with disproved and discarded warnings that the end of industrial growth had been reached and that the time had come to freeze the economic system and divide the current jobs and income evenly throughout the population before retrogression began. It is time that the pessimistic philosophy of the depression of the 1930's be added to the discarded doctrines of the past.

Between 1899 and 1929 the volume of production of the manufacturing industries increased more than 200 per cent, although the population increased only 62 per cent. The rise in the last decade before 1929 was as great as in the two previous decades, although the population growth was less. It has been normal for the production curve of American industry to rise. Periods of abnormally small growth or decline have always been followed by compensating periods of vastly greater expansion. If history repeats, as it always has, the decline since 1929 will be made up in greater expansion in the late 1930's and 40's than the United States has ever experienced.

A point which is often overlooked in connection with factory production and employment is that there is an absolute limit beyond which employment does not, and need not, rise; whereas we know no limit for industrial production. Production is as limitless as man's wants and our ingenuity to develop products to fill those wants. Employment, however, does not rise above 40 per cent of the population. The remaining 60 per cent of the population consists of women, children in school, and the aged who are retired. The level of 400 workers per thousand population was maintained most of the time between 1910 and 1930 and that level was 50 per cent higher than the level of 100 years earlier when only 270 per thousand population sought employment in normal periods of prosperity.—JOHN W. O'LEARY, President, Machinery Institute, before the BIRMINGHAM, Alabama, CHAMBER OF COMMERCE.

There's Something about Trust Work

A TRUST department is a little universe all by itself. Under its administration is property of every kind and character—real and personal, tangible and intangible, liquid and frozen, productive and unproductive, rural and urban, vested and contingent. Among its customers are people of every kind and character—rich and poor, young and old, learned and ignorant, wise and foolish. Among the terms of its trust instruments are provisions of every kind and character that the wit or wisdom or eccentricity or even the fanaticism of men can conceive. There is no known service with respect to property or person that sooner or later a trust department will not be called upon to render or to find someone to render. Consequently, there is no known art, skill, experience or judgment possessed by a bank officer or director which in course of time will not be in demand in his trust department.

Thus, the trust institution offers an unparalleled opportunity for the exercise of every conceivable kind of business talent. Likewise, it offers an equally unparalleled opportunity for the rendering of every conceivable type of personal service. In these rare combinations of economics and service, of property and persons, of benefactors and beneficiaries focusing in the trust department are the supreme opportunities for the exercise of our gifts and the satisfaction of our desires to be useful men.

What a satisfaction it will be to a conscientious, public-spirited, humane bank officer or director at the end of his active career to contemplate his part in trust business and in trust service, when he thinks back over the estates he has helped to conserve, the homes and families he has helped to hold intact, the children he has helped to educate, the careers he has helped to start, the comforts he has helped to provide for the aged and infirm. Standing alongside the trust officer, each may find himself saying with Aeneas, "All that I saw and part of which I was."—GILBERT T. STEPHENSON, Director of Trust Research, Graduate School of Banking, before a conference of the COMMITTEE ON TRUST FUNCTIONS, NEW YORK STATE BANKERS ASSOCIATION.

Women Pay for Strikes

WHENEVER management and labor reach an impassé that provokes a widespread strike, the American woman is the one who is "whipsawed". She pays the bill. She takes most of the loss and endures much of the suffering. It is incumbent upon her in this day and age to take a more active interest in labor relations—for they have a direct effect on her income and on her happiness.

Women stockholders, the wives of jobholders, and women consumers have an important partnership in industry and it is important that they have an understanding of some of the fundamentals. Industry in this country was created and has flourished through cooperation of capital and labor.

Big strikes hit the American woman in the pocketbook, if not as an investor, or a jobholder, or wife of a jobholder directly affected, then as a consumer. She buys thousands of automobiles annually and influences the purchase of many thousands more. Anything that interferes with production increases the difficulty of producing at a profit, makes for higher prices and delays distribution.

As a consumer, in that sense, hundreds of thousands of American women will have to pay part of the strike bill at General Motors. Women own 16 per cent of the common stock and 23 per cent of the preferred stock in this corporation.

To those woman investors, to the wives of striking employees, to the woman investors and wives of employees in many related industries, to the consuming public, this is a matter of extreme importance.—CATHERINE CURTIS, National Director, Women Investors In America, Inc., before the BRONXVILLE (N. Y.) WOMEN'S CLUB.

A Glutton for Capital

THE electric industry has always been a growing one and it is such a glutton for capital. Every dollar of additional gross earnings of an electric utility requires $5 or $6 of new capital for generating plant and distribution facilities.

The private utilities have from time to time been bitterly criticized as being "vested interests" which through their monopoly gouge the public with high rates, and the intimation is advanced that this monopoly has been somehow grasped from an unsuspecting public. Such statements overlook the economics of the situation.

The economic reason why the electric industry has to be a monopoly lies in the relatively high investment required. The average capital invested in all industry in this country, based on the last census figures, is 71 cents per dollar of annual gross revenue. In general industry, therefore, competition which is desirable in order to produce the greatest efficiency, does not affect a proportionately large investment of capital; or at least the relative amount of it is such that investors are frequently willing to risk it in a competitive enterprise. In the case of the electric industry, however, the capital required per dollar of annual gross is eight times as large as with industry as a whole, and such an amount of capital the investor dare not risk in a competitive enterprise.

It is the realization of this unavoidable high investment ratio which has led to the standard practice of making the electric utilities a regulated monopoly—regulated so that no more than cost is charged for the service, a monopoly in order both to avoid the waste due to duplication of large investment, and, by thus protecting the investor, to induce him to invest his capital in such enterprises at the lowest feasible rate.

The question of municipal ownership of the electric service in our cities has been emphasized by political pressure far beyond its true importance to the average citizen. As the present conditions show, after decades of experience with thousands of cities, the cost of electricity for the ordinary householder is but 2 per cent of his budget and, after allowing for the tax exemption which municipalities enjoy, household rates are actually higher with municipal than with private operation.—C. W. KELLOGG, President, Edison Electric Institute, before INVESTMENT BANKERS ASSOCIATION.

Losses and Income Tax Returns

MANY loans become doubtful but not positively bad. Sometimes such items as these were ordered charged off by bank examiners but no reduction in income taxes was allowed.

A summary of my opinions as to the extent to which a taxpayer may be bound by the manner or year in which a transaction is returned is as follows:

CLASS	OPINION
1. Debts previously charged off in whole or in part but not claimed as deduction.	1. May be deducted in the year in which finally determined to be lost.
2. Debts charged off in whole or in part and claimed as a deduction but disallowed by Commissioner because not then definitely ascertained to be worthless.	2. May be deducted in the year in which finally determined to be lost.
3. Debts not finally determined to be worthless either in whole or in part but which were charged off and claimed as a deduction in return which showed a loss before deduction.	3. Return may now be amended restoring the loss, and debts may be deducted in year in which debts are finally determined to be lost.
4. Real estate written down but not claimed as a deduction.	4. Loss, if any, may be claimed as a deduction when finally disposed of.
5. Real estate written down and also claimed as a deduction, but which was disallowed by Commissioner.	5. Loss, if any, may be claimed as deduction when finally disposed of.
6. Real estate written down and claimed as deduction in return which showed a loss before such deduction.	6. Return may now be amended restoring the erroneous deduction and loss, if any, may be deducted in year in which real estate is disposed of.
7. Depreciation not claimed or claimed in improper amount.	7. May be recomputed and refund claims filed for years not outlawed and other returns amended, provided such returns show a loss after the amendment.

—E. C. BOYE, C.P.A., Kansas City, Mo., before group meetings of the MISSOURI BANKERS ASSOCIATION.

1,000,000 Houses a Year

FIRST and foremost, let us find means by subsidy or otherwise for a widespread and imaginative low cost housing program up to the limit of the available labor supply, and perhaps based on a guaranteed annual wage for a number of years.

I do not believe there is any one measure so likely to accelerate recovery and at the same time add to the real wealth and well-being of our people.

With but one or two exceptions, this would seem to bring out of the doldrums the last remaining lagging industries, while at the same time furnishing a really profitable use for idle funds. I hold no brief for any one method, but believe a way can and must be found to build up to 1,000,000 houses a year for many years.—ERNEST S. GRIFFITHS, Dean, American University Graduate School, before the AMERICAN STATISTICAL ASSOCIATION.

Public Responsibility to Banks

FROM all indications this year will hold more economic happiness for us than its recent predecessors. More people are at work; more goods are being produced; and the people have more money with which to buy them. A spirit of increased confidence is in the air.

One of the most encouraging aspects of the situation is the renewed spirit of cooperation which is becoming increasingly evident. The nation stands united by a determination to attain new levels of well-being. We are profiting by the lessons of the past half dozen years, and with the present spirit of courage and determination we cannot fail to progress.

The banking system earnestly desires to cooperate to the utmost in this forward movement. Like other groups we are engaged in increasing the efficiency of our business, and, while the process is by no means complete, the banking system will beyond doubt serve American business in the years to come more efficiently than ever before. The emergency is past. The confusion of the past few years has ended. Now, with calmness and with resolution, the banks are turning their attention to the fundamental problems which confront them. Bankers throughout the nation, of every rank and in every section, are determined to adapt themselves to the prevailing lines of economic advance.

Bankers are increasingly conscious of their responsibility to the community. Let me mention a corollary which has received less attention, namely, the community's responsibility to the bank. It is not the bankers alone who determine what sort of banking system this nation shall have, but the public they serve as well. The American people have the power to fashion any kind of banking system they wish. They have this power not only politically—for there is no business subject to greater regulation—but also through their ability to exert economic pressure.

Let me illustrate this concretely. During times of business expansion there is always a popular demand for more banking facilities, a movement to start new banks regardless of whether the services of these new banks are really needed by sound business. The danger is that such a movement may go too far. During the prosperity of the '20s, for example, it is generally agreed that there were too many banks. Many of them began their operations at the very outset with resources too limited to tide them over inevitable periods of stress; and even before the depression, the number of bank failures was far too high. These unsound banks, moreover, affected the entire banking system, through competition in interest rate and readiness to make unsound loans. It is essential that during the coming months we guard against undue laxity in permitting new banking organizations to engage in business.

Now before a new bank can be formed it must obtain a charter from the state or the national banking authorities, and, if its deposits are to be insured, it must obtain the consent of the Federal Deposit Insurance Corporation. It is at this point that the public can assert its beneficial influence. The governmental officials who control the chartering of new banks are your representatives and they are responsible to you for their actions. Banks themselves have only limited influence in such matters. If they oppose the granting of new charters they are subject to criticism for appearing to want to suppress competition. Only vigorous public opinion can be completely effective.

This one illustration will serve to indicate what I have in mind when I refer to the public's responsibility to the banks. Only with the cooperation of an informed public can the banking system attain its maximum usefulness. Your banker is eager to see you and talk things over. More than ever he wants to help you solve your problems, and he wants you to understand his.

On his behalf I want to extend to you a sincere invitation to call at your bank and see him. The exchange of views will benefit you both. Together you will be able to raise the banking organization to new heights of service to the people of this nation.—TOM K. SMITH, President, American Bankers Association, in a nation-wide radio address.

Business Be Quick

IT is the one thing clear in a confused world, that we've got to be open-minded and quick on our feet to meet the changes that are impending. The question is whether business men will be able to handle these changes or whether they will slip out of our hands, as they have done disastrously in other countries.

The United States Chamber of Commerce has already been on record, and I think all sound business men agree, that the principle of collective bargaining should be followed everywhere. No business men should refuse to meet with a proper group of representatives of their own employes. But this does not mean a closed shop or accepting any one organization as the sole avenue of contact with employes.

Business men all over the world recognize that American business management has been progressive in raising wages without being forced to do it. That is because American business believes what it needs most is widespread buying power.

Further, I would say that American business recognizes the advisability and feasibility of proper regulation by government in many fields of business, as in the Interstate Commerce Commission, where the regulatory body acts as an impartial umpire among conflicting interests. It is unfortunate, however, when a supposed regulatory body seems to be playing with the other side instead of impartially umpiring the game.

It is incredible that business men should resign themselves to saying: "There is nothing we can do; war is coming." One of the things we can do at least is to cooperate in the efforts of the International Chamber of Commerce to eliminate friction.

The location of raw materials and making them available to other countries is a matter to which thought has been given during the past year by a committee representing the International Chamber and the Carnegie Endowment for International Peace.—HARPER SIBLEY, President, Chamber of Commerce of the United States, before the NEW YORK BOARD OF TRADE.

A Bank's Responsibility to the Public

WE have on our books a great deal of statutory law—laws enacted by Congress whenever it meets and also by legislatures of various states as they meet. Many of these laws affect banking institutions. Taken all together they form the banking law of the United States. I am informed that there are over 20,000 pages of bank law in force in this country.

A bank receives its charter from the state or the United States Government and is supervised by governmental authorities. We have in this country not one banking system; we have 49 banking systems. The reason for this is that the United States Government charters banks and so does each one of the 48 sovereign states. There is talk sometimes of a unified banking system; that is, all banks under one governmental authority. This would mean the surrender of state rights in chartering and supervising banks. I think we will come to this very slowly because there is no doubt in my mind that we all have a feeling of allegiance not only to our nation but also to the state in which we live.

The business of the banks of this country is the administration of a great trusteeship. If banks are to be successful they must maintain the very highest degree of public confidence. They would get nowhere without it. They are the custodians of the funds of the community. The business life of the community depends upon the daily operation of its bank and frequently upon the ability of its manufacturers and merchants to obtain loans from the bank. The banker is aware of his moral responsibility to the community in which his bank exists, the community which furnishes the bank with its funds and enables it to do business as a bank, and realizes that this community deserves wise judgment in its granting or refusing to grant loans. The bank helps itself by helping others to succeed. The bank should give all the advice and assistance possible, at the same time placing none of its funds in jeopardy.

In considering the responsibility of banks to the community I realize the importance of educating people to sound mortgage lending practices. We have learned much about mortgage loans in recent years. We have made some loans that should not have been made—loans, for example, on buildings that should not have been constructed. A lesson we have learned, perhaps with greater force than any other, is the necessity of making loans in such a way that they can be and will be repaid over a period of years. We have, in other words, learned the meaning of amortization and have studied how to put it into practice.

Safe loans are those made on necessary and useful buildings, on buildings not worn out or obsolete, buildings that produce an income or that can be used for homes of the people. These loans, made on terms that provide for gradual repayment month by month, period by period, are the proper mortgage loans for savings banks and to some extent other banks.

We have a responsibility to the community to make mortgage loans with our funds. The borrower, however, has a responsibility to the bank to repay that loan. We will no longer listen to the reasoning of those who wish a loan to remain unchanged year after year. Changing conditions require that the loan be kept ahead of the depreciation that is constantly going on.

Banks, it is true, have legal obligations. The law makes them clear. Banks have financial obligations to meet every contract, to pay every dollar they owe. Above and beyond these, banks have a moral obligation to serve the public; to serve their community, state and nation. They are service corporations.

Profit is a secondary consideration; fulfillment of their responsibilities must come first.—PHILIP A. BENSON, Second Vice-president, American Bankers Association, before the LUTHERAN SOCIETY, INC.

Worthy of Their Hire

WILL we, as bankers, this year, have more laws placed on the statute books for our benefit, or to our detriment? We will, in all probability, have some additional laws passed but for the most part they will be of a minor nature.

We are confronted with perplexing problems. Most serious and most pressing, are the matter of bank earnings because of rising costs, demands for better living standards, and higher taxes. We must find means to increase earnings, but how can it be done?

I have come upon numerous bankers who still follow the idea that it is not good banking to charge for services rendered. How sadly lacking we are, if we, as bankers, have not sensed the public viewpoint which now generally says: "Yes, we will pay for your services, but with a word of warning—do not overcharge us".

For many years, bankers have educated the public to come to a bank and receive many of its services free; but in the space of the last few years we have turned in the other direction—to capitalize upon service plus charges. We should not let these charges become so extreme that there will be such public reaction as to force us to abandon these rightful gains. This year we should continue to consolidate those gains and those banks which have not taken this way of increasing earnings should plan to do so, and you, particularly in the matter of smaller banks, will be amazed at the gains you will achieve. Banks in this country which have adopted such systems, recognized their value in the past and installed proper charges.

Let us not forget that opinions of people mold our actions. If those opinions are of a broad yet conservative nature, give the public what it wishes, but if public opinion should demand of the banker to recede from his position of trust, we must then mold public opinion to see our view.

Let us resolve not to oppose in the future what will be good for banking,—just to oppose,—but to work wholeheartedly toward a common end—that of making banking what it must be, a public trust recognized by a trusting public and operated by men who understand sincerely and thoroughly that trust.—FREDERICK P. H. SIDDONS, Secretary, American Security and Trust Company, Washington, D. C., before Group II of the VIRGINIA BANKERS ASSOCIATION.

ABCDE of Banking

THE ABC's of banking are: Advertising, Bank Management, Credit Policies, Deposit Insurance, Earnings.

Advertising. This is really the only way we get a chance to talk to our public. Adopt an operating policy and sell it; if it's good the public will know it. They are more interested in how *cold* you are than how old. Right now it's not the height of your building, but the treatment handed out on the ground floor that means something. Run your bank as you think it ought to be run, but be sure that all the interests you serve are being properly protected in the order in which they come—depositor, stockholder and borrower.

Bank Management. H. N. Stronck pretty well summed this up in this statement made five years ago before the Mississippi Valley Conference: "Banks are good in proportion to the degree of development of the following three factors—sound policies, an organization that can effectively apply these policies, and a control that will insure their application." Naturally this whole plan starts and finishes with having the personnel fit their respective positions, and not allow misfit cogs in the operating wheels. The best executives are those who know how to build just this kind of an organization.

Credit Policies. While I have given the borrower third place, we should not forget that we have a real obligation to perform in his favor. He it is who keeps business going in his community; he has cast his lot with us and is entitled to his legitimate needs, because in an emergency, if we do not take care of him in a reasonable way, he has no other place to go and we have done him irreparable damage.

A good credit officer learns not to say "No" too hastily, and often finds it possible to whip a loan application into such shape that it becomes a good investment for his bank and a service to the applicant. A statement of the following sort frequently leads the applicant to offer a perfectly acceptable form of note he had not thought of before, because of ignorance regarding banking policies: "Well, my friend, we cannot grant you the loan you desire in the shape you have suggested, but possibly you can offer some other endorsement or collateral to make it qualify, and we would like to be of service." This method of handling leads either to final rejection in a courteous way, or quite often to the loan being made in mutually satisfactory shape.

Broad vision and broad credit policies do not necessarily mean excessive liberality in lending money. Narrowness and conservatism are not synonymous, and I pity the customers who have the former type of bank management to deal with.

On the other hand, let's remember that a hastily made loan, concerning which we have not acquired the fullest information, frequently brings a headache later on. Reticence or evasiveness on the part of the applicant in answering pertinent questions is a sure sign that you do not know the whole story. *Keep loans at home*. Instances have come to my attention in which banks have allowed some of their best local credits to go out of town because of rate differential. When this business is entitled to command rate consideration, I believe it is unwise to be arbitrary and lose it.

Deposit Insurance. Another high spot in banking today is deposit insurance, upon which there are conflicting opinions, even among bankers themselves. Undoubtedly we can find what we may choose to call inequalities in its application to banks of various sizes and deposit averages, but as a stabilizer in times of stress we must feel that its influence will be felt until experience proves to the contrary.

It might be fair to consider some adjustment of the assessment so that the larger banks would pay more nearly on deposits actually insured, rather than on totals, as they are now doing. For instance, we have two accounts in our bank carrying an aggregate balance of $1,200,000. Obviously, the assessment of $1,000 annually we pay on these two accounts is equal to 10 per cent on the sum actually insured ($10,000). Some adjustment of this situation would apparently be justified.

The influence of this deposit protection, covering as it does such a large percentage of accounts numerically, should have the effect of deterring initiation of withdrawals, thereby preventing a growing feeling of uneasiness under which withdrawals usually gain momentum.

Earnings. As this subject alone could be indefinitely dwelt upon, I may just ask: Are your accounting methods fully informative? Are your expenses reasonable in all departments and is your personnel producing the best results? Are your accounts all paying their own way and some not getting a free ride?—JAMES B. DEY, JR., President, Virginia Bankers Association, and Senior Vice-president, National Bank of Commerce, Norfolk, before GROUP II of the VIRGINIA BANKERS ASSOCIATION.

Taking the Warehouse to the Goods

A PHASE of warehousing which has developed extensively in recent years is commonly referred to as "field warehousing", and it is gradually attaining prominence in the lending policies of banks nationally. The name "field warehousing" is more or less a coined one as the operation is only and actually that of warehousing, but the performance takes place at the existing location of the commodities and goods. The word "field" has been added to distinguish it from terminal or central storage. "Field warehousing" could be called quite applicably "branch warehousing" for it is considered more along these lines by the larger operators of this type of warehouses. Irrespective of what term is used, the warehouseman has an inviolate trust to the banker for the proper custodianship and delivery of the warehoused goods.

A warehouse company takes its facilities to the owner of the goods and establishes a warehouse on the premises of that owner. As warehousing follows the trade custom of storing the particular goods, the field warehouse may be a building, or part thereof, in which is stored canned goods, sugar, flour, cheese, other food products, textiles, manufactured goods,

etc.; or it may be an open space on which lumber, logs, pulpwood, iron, steel, etc., are piled; then again, it may be tanks or bins for the storage of grains, oils and the like.

The prime requirements in the physical establishment of the field warehouse are that the building, space, etc., which is to be designated as the warehouse must be accurately defined and under the control of the warehouse company; that the goods to be warehoused are properly segregated and ready of identification; and that a proper accounting of the goods is maintained. Briefly, the warehouse company accomplishes these vital essentials through obtaining leases which are duly recorded; the employment of its own signs, locks, identification or stack cards; accounting systems, and the appointment of its bonded agent at the warehouse.

It may be asked, rightly, what is the purpose of field warehousing when the goods remain on the owner's premises and the owner provides the warehouse space. The answer is that field warehousing is a financial medium. It is a ways and means of creating security covering the owner's goods, or inventory, in a form which will be readily acceptable to a bank as collateral for moneys loaned or to be loaned. The form of this security is the warehouse receipt. Why, then, should these warehouse receipts be acceptable security? Provided warehouse receipts are issued by a bona fide warehouse company, they convey title to the goods listed thereon to the holder and the security is in the custody of an independent third party providing proper bailment and accounting, and no releases of the security are permitted without the written authority of the bank. Under these conditions, the bank's only concern as to its security is whether it has a proper margin in value and whether there is a market for the security.

The warehouse company is responsible for the existence of the security. For these main reasons, warehouse receipts are regarded as the most desirable form of security applicable to a borrower's inventory.

Furnishing, as it does, sound security on inventory, field warehousing has opened an avenue to the safe and profitable employment of a bank's funds. It makes available to a bank loans which are not warranted on the basis of the borrower's statement or with other forms of collateral, but which would be attractive with control of the borrower's inventory held. I think all bankers have had the experience of regretfully declining accommodation to a deserving borrower for the reason that the statement submitted was not in line with the credit asked for or that the security was not satisfactory. However, if that borrower had an inventory of raw or finished goods, the application of field warehousing might have altered the complexion of the credit application.—T. S. Jackson, Manager, Field Warehouse Division, St. Paul Terminal Warehouse Company, St. Paul, before Wisconsin Bankers Association.

How to Prevent Inflation

I AM a conservative, a believer in development of private initiative, private banking and business opportunity, but when I analyze just what it is that I want to conserve I come to the conclusion that it is, after all, property rights, the opportunity for expression of individualism. And then when I look a little further, I realize that the great majority of people in this country own very little property, and that what they want to conserve is the right to work, and the security of a reasonable standard of living for themselves, and their families, now and in the future. I realize that human rights must be preserved if property rights are to be preserved, and property rights must be preserved if human rights are to be preserved.

The interests are not conflicting. They are a part of the same thing. As the owners of property and as leaders under a system of capitalism it seems to me that we cannot expect to conserve that which we are so desirous of conserving without attempting or being willing to conserve and assure that which the great majority of our people want to be assured of.

As I look back and consider what we have gone through from the time of the boom period of the '20s up to the present, I am impressed with this fact: That to have safety in banking we must have stability in our economy, that it isn't possible to have such great fluctuations in the national income as we have had, and at the same time devise any formula for sound credit and investment policy for banks.

I have said for three years that you cannot balance a Federal budget until you correct the causes for its being out of balance. A Federal budget can only be balanced out of national income, and the national income can only be increased by the increase in the volume and the flow of money, and private interests will not increase the volume or the flow of money except as it is profitable to do so; but a government, acting collectively for all of us, can do for us under such circumstances what we cannot do for ourselves, acting individually.

That has been done, and the Federal budget will be balanced out of an increased national income. It is my belief that there will be very little more borrowing by the Federal Government. With the large Treasury balances, with the assets which are being liquidated bringing funds into the Treasury, together with tax revenue, it is my belief that the market will not be given an opportunity to take substantial additional issues of Government securities, even though the budget is not technically balanced.

I believe thoroughly that a technically balanced budget will be reached by 1939, and that a balanced budget, so far as having to go to the market for additional funds is concerned, will be reached by 1938.

Now we have experienced the influence of deflation on the banking system. We have seen an example of the influence of reflation on the banking system and on our economy as a whole. If we can determine the forces that make for deflation and deal with them, and again can determine the forces that make for inflation and deal with them, we have some chance of approaching successfully the problem of maintaining a greater degree of stability than we have been able to achieve in the past.

I think it is much more necessary to deal with that problem now than ever before because of the complexity of our economy, because of the interdependency of its many parts, because of the fact that we are a creditor nation and because

we no longer have the great frontiers that we once had in the West and South. Yet I firmly believe that with far-sighted leadership on the part of the bankers and the business men, it is possible to devise ways and means for a better, more orderly functioning of our economic system, with a minimum of Government encroachment upon the field of private enterprise and initiative.

If for any reason we get out of balance again and unemployment starts to develop, surplus Federal revenue should be promptly diverted into the spending stream and away from the stream of the reduction of Federal debt. If that isn't sufficient to meet the unemployment situation and stop credit contraction in its inception, we should be ready to incur a budgetary deficit.

In other words, the Government must be looked upon as a compensatory agency in this economy to do just the opposite to what private business and individuals do. The latter are necessarily motivated by the desire for profit. The former must be motivated by social obligation.

You are not worrying today, of course, about deflation. You are pretty well satisfied with recovery up to date. You have been worried about the Government debt and unbalanced budget, and you have had fear that it would create an inflation and destroy the value of your money, the value of your investments.

I have answered one of your questions, and that is the one with reference to a balanced budget. Inflation comes not only from a continued budgetary deficit, financed by the banks, but inflation can come through an expansion of private credit. I believe that that can be met. It can be met first by diverting surplus Federal revenue to retiring Federal debt as private debt expands.

It can be met by the powers which have been given to the Federal Reserve Board, by extinguishing excess reserves, and even going so far, if need be, to force the banks to borrow. That, of course, would stop the process of private credit expansion.

I think that with the powers that are in the Federal Reserve Board, coupled with the right fiscal policy by the Government, first by balancing the budget, and then by using surplus income in times of prosperity to reduce the Federal debt, we can stop inflation.—MARRINER S. ECCLES, Chairman of the Board of Governors, Federal Reserve System, before the NEW ENGLAND BANK MANAGEMENT COUNCIL.

Now Pay the Fiddler

THE United States must have a period of genuine debt liquidation before the advent of the next severe depression or the next war.

With interest rates at their present low level the Federal Government can carry the present volume or even an increased amount of debt with ease. But the ability to carry a debt is not the only criterion of credit capacity. Nor is the present low interest rate a demonstration of the soundness of the credit of the nation. Rather, in the present situation, it is an index of the paucity of alternative high grade investment.

Unless the Government and its people have the will to retire this new debt before large public credits are needed again, it may never be able to borrow as much as it needs on such occasions or on as favorable terms again.

The policy which the state should adopt is to impose the largest possible amount of taxes for debt repayment which can be collected and still allow a reasonable rate of increased production, or, as it may be termed, business expansion.

The amount of reasonably possible taxation will vary from time to time. It can be increased, for example, whenever business activity passes from the stage of ordinary production to inflation. It can reasonably be decreased, too, with economic depression.

The greater the length of the period of repayment, the less will be the probable effect of taxation for debt service on the distribution of wealth. The longer the period, the less likely it is that the debt will be paid by progressive taxation, or the less steep the progression will be. Conversely, the shorter the period and the greater the amounts of payment, the more likely are progressive taxes to be employed.

The corporate surplus tax should be strengthened to make more effective personal income taxation and the known defects in the law should be removed. Under no circumstances should this law be repealed or its teeth removed.

With the advent of prosperity, and certainly if there is inflation, the productivity of the national revenue system may be increased by a temporary, boom-time sales tax. Tax exemption of securities should be gradually eliminated and the administrative machinery should continue to be improved.—SIMEON E. LELAND, Professor of Economics, University of Chicago, before AMERICAN ECONOMIC ASSOCIATION.

The Risk in Bond Guessing

IF there is any single outstanding weakness in the handling of security accounts today by the banks of this country, it lies in the absence of the adoption of a policy. It is essential in the extreme to arrive carefully at a policy in regard to the security account, and once that policy has been determined, to adhere to it rigidly. It is necessary that we determine what function we wish our security account to perform. Without knowledge of that, a banker is powerless to proceed intelligently in any direction.

A practical solution could probably be worked out along the following lines: that portion which is being used as a secondary reserve should be put in a revolving fund with

some maturities coming due in each of five years. It is not an academic or theoretical attitude to say that in this portion of the account there can be virtually no consideration given to the yield obtained, and the reason such an attitude is not theoretical is that the function which this money is designed to perform does not permit of placing it in channels which give a return of any consequence in this money market. It is folly for any single institution or groups of institutions to feel that they can control, or "beat", to use slang, the going rates of the money market.

That portion which because of a continually shrinking loan department is employed more or less permanently in securities should be placed in bonds with maturity date ranging from 5 to 20 years. It would be desirable to space these with some degree of regularity although such spacing need not be as rigidly adhered to as in the case of the revolving fund composing the secondary reserve.

It is not possible to construct in a day or a week or a month a revolving fund of five year bonds or a revolving fund of 20 year bonds, but over a period of six months to a year there is no reason why any banker in America could not construct such a fund to his satisfaction.

What are the guide posts by which one can determine the amount of bonds which would be in the five year revolving fund?

The data it would be necessary to seek here would be the following: the seasonal fluctuation experienced in its loan account and the seasonal variation in deposits. To the sum of these two figures should be added an estimate made by each banker for himself as to what he believes his loan demand would be if business continues to revive.—J. HARVIE WILKINSON, JR., Vice-president, State-Planters Bank and Trust Company, Richmond, Virginia, before the VIRGINIA BANKERS ASSOCIATION.

Inflation's Fingerprints

THE use of the word "fingerprint" brings to mind thieves and sleuths. What could be more suitable in connection with the discussion of inflation, which, in contrast with the ordinary thief who works only by night, carries on its thieving operations 24 hours of the day.

Unfortunately it seems to be most difficult for many who discuss this subject to agree upon and adhere to any definition of the word "inflation". However, by "inflation", I shall mean that condition which exists when purchasing power has been somehow injected into the channels of trade at a faster rate than is necessary to represent goods produced and en route to market. It is a condition wherein the effective demand which might possibly converge on the market would greatly exceed the value of goods reaching the market more or less simultaneously.

The phrase "purchasing power" is used to designate all means of payment commonly given by buyers to sellers in the market places of a modern industrial nation. For the most part, this consists of demand deposits subject to check, and hand-to-hand currency.

For example, when checking accounts plus currency in circulation increased from about 10 billions just before the World War, to approximately 25 billions in late 1919, the presence of inflation was fairly obvious.

It happens that this simple criterion of inflation is not always as useful a guide to those seeking enlightenment.

The present monetary and banking situation makes it virtually impossible to judge the degree of inflation by its effects on prices in the speculative markets, such as the prices of commodities and common stocks. In the first place, devaluation presumably causes higher commodity prices over the long run. There is an obvious relationship between the cost of production of gold and prices of other goods, in the long run. The existence of this relationship is quite apt to be forgotten in the case of gold because it is frequently overlooked that a high commodity price level really means a low price for gold, and vice versa.

The remonetization of silver is another complicating factor, the effects of which seem certain to be similar to the effects of inflation as I have defined it. Of course, the monetization of government deficits is directly inflationary, but the operation of the various stabilization funds may not be inflationary and yet may have short run effects on price levels, especially of the international commodities. All these influences, together with many others, so complicate the situation that it is virtually impossible to ascertain the degree of inflation by reference to the apparent effects of inflationary policies.

In view of these circumstances the only satisfactory clue to inflation will probably be found by an examination of the source of the excess purchasing power made available. In the case of the inflationary progression now under way in this country, every informed man realizes that the *modus operandi* is for the commercial banking system to monetize the budget deficits of the Federal Government. The source of inflation at present, therefore is similar to its source during the World War period in this country. In other words, we shall find the fingerprints of incipient inflation on the bank records of this country.

If a bank has already invested (that is to say, spent) the savings which have been deposited with it, and then proceeds to acquire an investment type asset (that is, to buy another bond, or to lend to someone on securities or real estate), the resulting credit to the seller's checking account will constitute a net addition to the total of checking accounts in use, inasmuch as there was no prior deduction from the account of a savings depositor.

This illustration may help to make it clear why the acquirement of investment-type assets by a commercial banking system, to a greater extent than is warranted by its savings deposits, plus capital, surplus, etc., creates new purchasing power which is in excess of that needed to represent goods produced and en route to market.

I am convinced that the extremes of the business cycle would be eliminated if our banks refused to provide the means by which honest optimism can become insane greed, rushing madly to its own destruction.—E C. HARWOOD, Trustee, American Institute for Economic Research, before the SOCIETY FOR STABILITY IN MONEY AND BANKING.

Interest Rate Control

FEW, even among bankers themselves, realize the extent of government intervention in recent years throughout the world in the field of banking and credit.

State activity in banking is a problem of deep significance and one which must be approached in an impartial and non-partisan fashion. It is not sufficient to criticize government activity unless a constructive attitude is taken and unless private enterprise is ready and willing to assume those functions being rendered by government credit institutions. It is a problem which requires thoughtful study and a field in which broad sweeping generalizations must be tempered by an appreciation of the realities of the situation.

I want to give particular emphasis to the effects of state intervention in this country on rates of interest. This is a problem which not only affects banking activity very directly but also affects in its many ramifications all phases of economic activity.

Through the depression Government intervention in interest rate control has been for the purpose of lowering rates of interest.

Intervention in interest rate control has taken two forms: first, the establishment of various types of credit institutions which, directly or incidental to their primary functions, affected rates of interest; and second, the adoption of easy money policies which have enlarged member bank reserves and so lowered all interest rates as excess reserves increased.

The effect of Government lending agencies upon reductions in interest rates and credit standards requires careful analysis. The various advantages which they enjoy place them in a preferred position compared with other lending agencies and reduce their costs below competitive levels.

In the first place, Government lending agencies have received capital contributions from the Treasury. More than $2,000,000,000 has been so provided. The majority of these agencies are paying no dividends to the Government and existing provisions for such payment are on a when, as and if earned basis.

In the second place, Government agencies enjoy provision for the Government guarantee of the obligations which they issue.

In the third place, various obligations issued by Government lending agencies carry tax-exempt privileges, giving them further advantages in the matter of operating costs.

In the fourth place, the Government has extended direct financial assistance to its lending agencies in other ways, including payments to offset deferments of principal instalments, interest rate reductions, and appropriations to defray administrative expenses, etc.

There are 12 major Government agencies, other than the Treasury, legally empowered to issue securities. Prior to 1932 there were only two Government agencies or quasi-agencies with such powers. Seven of the 12 agencies have securities outstanding at the present time totaling more than $10,000,000,000 including the $4,000,000,000 of Reconstruction Finance Corporation notes largely held by the Treasury. It is estimated that through a full use of their powers these 12 agencies could borrow up to a maximum of $25,000,000,000.

The whole subject of Government lending agencies should, I believe, be thoroughly reconsidered. What rôle should they play in periods of depression, in periods of prosperity? Can their functions be assumed by private agencies? What has been the effect of their operations upon rates of interest, upon credit standards, upon making for artificial ease in the field of instalment credit and mortgage loans?

Government lending institutions have reduced rates of interest in *particular* fields. Monetary policies have reduced rates of interest in *all* fields through increasing member bank excess reserves.

Through our interest rate policies we are preventing the rate of interest from exercising its regulatory function. Interest is the price of capital. Any type of price control serves to nullify those self-corrective forces which operate under conditions of free competition. Errors become cumulative and resultant business fluctuations are magnified. This is true of interest rate control either in particular fields or in the whole economy.

Low and declining rates of interest are of immeasurable benefit to a nation, provided that they are the result of genuine forces of supply and demand. They are evidence of a prudent, thrifty people; of a community where greater reliance is placed on machines and where wages are relatively high.

On the other hand, the reduction of rates of interest through monetary manipulation and forced credit expansion provokes great harm in its effects on the banking system and in magnifying business fluctuations. Fundamentals are disguised. People act as if the community had truly grown rich and prosperous.

Under such circumstances the commercial banking system is called upon to do that which it should not be expected to do if equilibrium is to be maintained. Government deficits and long term investment requirements are financed by bank credit extensions. The main supply of the capital market must come from individual and corporate thrift if sound conditions are to be maintained.

Artificially low interest rates, bringing about a substitution of bank credit for true capital on a vast scale, inevitably lead to a disastrous deterioration in the quality of bank credit itself. It leads further to grave industrial dislocations. Capital and labor are not utilized in relation to one another in the most productive fashion. Dislocations arise in the structure of production.

Artificial prices are dangerous in any field, but are emphatically so in the case of the rate of interest where the effects permeate the entire economic system. When interest rates eventually rise, as they surely will, serious readjustments are involved. Business earnings must be recapitalized at the higher rates and fixed assets correspondingly reduced in value. Long term bank assets will be subject to the same forced readjustment.

Not only are low rates not necessary for recovery, but they militate against a sound recovery and set forces in motion which involve later serious readjustments. An economy can be kept in equilibrium only if the rate of interest, along with other prices, is allowed to seek its natural level and to perform its full regulatory function. This conclusion applies to those particular fields served by Government lending agencies as well as to the whole economy which experiences the expansionist effects of interest rate control.—WINTHROP W. ALDRICH, Chairman, Board of Directors, The Chase National Bank, New York, before a dinner meeting of the RHODE ISLAND BANKERS ASSOCIATION.